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**South Korea's Sunshine Policy, 1998-2002:  
Domestic Imperatives and Private Interests**

**by**

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A thesis submitted in partial fulfilment of the requirements for the  
degree of Doctor of Philosophy in Politics and International Studies

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## Abstract

The end of the Cold War has brought both uncertainty and opportunity for states interested in designing their own security policies. Alternative methods, other than military solutions, should be exploited to prevent insecurity and instability.

This study is concerned with South Korea's security approach towards North Korea in the post-Cold War era and in particular how South Korea can use non-military tools to prevent military conflict in the Korean Peninsula and to build mutual confidence between the two Koreas in the long-run. This thesis also presents an analysis of both the need and the opportunity for South Korea to adopt a comprehensive economic engagement strategy towards North Korea in the post-Cold War era in order to achieve these goals.

It argues that South Korea's implementation of economic engagement with North Korea requires its policy-makers' strong policy-making will for an active and consistent engagement posture. Then, this study demonstrates the important role of President Kim Dae-jung's strong causal beliefs about the necessity of engagement measures to address the post-Cold War North Korean security problems on the Kim Dae-jung government's policy-making in favour of comprehensive engagement with North Korea.

This study presents the model of 'business-track diplomacy' to test a state's utilisation of economic engagement strategy as security policy. This model provides ways to think around security issues and alternative security options which go beyond the traditional military containment approach to security in international relations (IR). Moreover, this study presents a new belief perspective that illuminates the South Korea's North Korea policy-making process, which had previously been dominated by military issues and essentially required an international structure perspective, centred on US influence. Thus, the belief approach contributes to the field of foreign policy analysis (FPA) for South Korea by proving the importance of its decision-makers' policy beliefs and by going beyond the conventional international structure approach.

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## Declaration

This thesis is presented in accordance with the regulations for the degree of doctor of philosophy. The work described in this thesis is entirely original and my own, unless otherwise indicated. The author also confirms that this thesis has not been submitted for a degree at another university.

---

(Jeong-yong Kim)

7 May 2002

# Glossary

## List of acronyms

ADB	Asian Development Bank
APC	Asia Pacific Committee (North Korea)
APEC	Asia-Pacific Economic Cooperation
CBM	Confidence Building Measure
CFC	Combined Forces Command
CPKI	Committee for the Preparation of Korean Independence
CPSU	Communist Party of the Soviet Union
CPT	Commission-based Processing Trade
DEFCON	Defence Readiness Condition
DLP	Democratic Liberal Party (South Korea)
DMZ	Demilitarised Zone
DPRK	Democratic People's Republic of Korea
EU	European Union
FAO	Food and Agricultural Organisation
FETZ	Free Economic and Trade Zone
FPA	Foreign Policy Analysis
GNP	Gross National Product
GNP	Grand National Party (South Korea)
HEC	Hyundai Engineering Construction
HMM	Hyundai Merchant Marine
HHI	Hyundai Heavy Industries
HRI	Hyundai Research Institute
IAEA	International Atomic Energy Agency
IFES	Institute for Far Eastern Studies (of <i>Kyungnam University</i> )
IMF	International Monetary Fund
IPE	International Political Economy
IR	International Relations
JDA	Japan Defence Agency
KCIA	Korean Central Intelligence Agency
KCNA	(North) Korean Central News Agency
KEDO	Korean Peninsula Energy Development Organisation
KEPCO	Korean Electric Power Company
KIEP	Korea Institute For International Economic Policy
KINU	Korea Institute for National Unification
KNTO	Korean National Tourism Organisation
KOLAND	Korea Land Corporation
KOTRA	Korea Trade-Investment Promotion Agency
KPF	Kim Dae-jung Peace Foundation
KWP	Korean Workers' Party (North Korea)
LDP	Liberal Democratic Party (Japan)
LWR	Light water reactor
MDP	Millennium Democratic Party (South Korea)
MFN	Most Favoured Nation
MIA	Missing in Action
MNC	Multinational Corporation
MND	Ministry of National Defence (South Korea)
MOFAT	Ministry of Foreign Affairs and Trade (South Korea)
MOU	Ministry of Unification (South Korea)

MTCR	Missile Technology Control Regime
NAM	Non-Aligned Movement
NATO	North Atlantic Treaty Organisation
NCNP	National Conference for the New Politics (South Korea)
NDC	National Defence Commission (North Korea)
NGO	Non-Governmental Organisation
NIS	National Intelligence Service (South Korea)
NLL	Northern Limit Line
NPT	(Nuclear) Non-Proliferation Treaty
NSC	National Security Council (South Korea)
NSP	National Security Planning (South Korea)
NTR	Normal Trading Nation
OECD	Organisation for Economic Cooperation and Development
ROK	Republic of Korea
SDF	Self-Defence Force (Japan)
SDPJ	Social Democratic Party of Japan
SNCF	South-North (Korea) Cooperation Fund
SSFAS	Senior Secretary of Foreign Affairs and Security
TMD	Theatre Missile Defence
TWEA	Trading With the Enemy Act
ULD	United Liberal Democrats (South Korea)
UN	United Nations
UNDP	United Nations Development Programme
US	United States
WFP	World Food Programme
WMD	Weapons of Mass Destruction

### **Korean terms used frequently in the thesis**

<i>Chaebol</i>	South Korean conglomerate
<i>Chochongryun</i>	Pro-North Korea association of Korean residents in Japan
<i>Jeongkyungbunri</i>	Separation of economics from politics
<i>Jeongkyungyeonkae</i>	linking economics with political affairs
<i>Juche</i>	self-reliance, independence
<i>Tongmibongnam</i>	North Korea's policy of engaging with US while excluding South Korea in dialogues

### **A note on the text**

In line with Korean convention, all Korean names in the text and notes are given with the family name first followed by the given name. Macrons are not used.

As far as interview notations are concerned, the interviewees and dates of interviews are cited in the text and notes.



# **Introduction**

## **Security in the post-Cold War period**

One of the most important and basic responsibilities of all states in world politics has been to ensure the safety of their populations. Hence, national security has always been at the centre of the policy-making agenda of a state and among states, with the state policy-makers aiming to create a viable security policy.

During the 20<sup>th</sup> century, the Second World War and the Cold War caused states and the international system to experience both the failure of preventing tragic wars, and the great destructive risks from, not least of all, nuclear weapons. This helped to consolidate the status of Realism as the dominant guideline for state security policy. In the absence of a higher authority in the international system, according to Realism, sovereign states had no alternative but to assume responsibility for ensuring their own security. Thus, the pursuit of national security compels states to maximise their military capability, often through forming alliances which are weighed against one another in a “balance of power” configuration. In fact, the Cold War era, in which the bi-polar world order was created, was based on a balance of comparable US and Soviet power blocs. This led to an effective system of deterrence and also gave state policy-makers guidelines – whether misguided or not – that they could use to identify enemies, threats, and strategies for the prevention of conflict.

South Korea was at the frontline of US containment policy, and also was engaged directly in Cold War conflict through the Korean War (1950-1953). South Korea’s security environment after the Korean War was well-defined by this Cold War security structure. The source and type of threats to the national security of South Korea were considered very clear. Since the national division in 1945, North Korea has been an explicit enemy. Military threats from the North have been real from the South Korean perspective, and tension has run constantly high. After the Korean War, the severe memory of it has shaped Seoul’s tense and even emotional perception of threats from the North. Moreover, the nature of South Korea’s

security environment and threat structure also evolved in line with the US-USSR rivalry. In coping with North Korea's military threat, which was compounded by its military alliances with the Soviet Union and China, South Korea relied heavily on the US for patronage and protection within the framework of the bilateral defence treaty. The presence of American troops in, and Washington's security commitment to, South Korea have served as a reliable security mechanism to counter North Korea's military aggression. In short, the conventional logic of containment and military deterrence has conditioned the direction of South Korea's security policy.

The end of the Cold War, however, has challenged policy-makers across the globe, and South Korea, as well as academics in the field of International Relations (IR), to rethink their approach to security. The demise of the Cold War and the bi-polar structure has created both uncertainty and opportunity in relation to security issues. Although the likelihood of nuclear war between superpowers and of low-intensity conflicts in the developing world through their intervention has diminished, the post-Cold War era has witnessed the occurrence of conventional war in the Gulf region, of ethnic and intra-state conflicts in Europe and Africa, and the threat of conflicts in the Far East, including those stemming from North Korea's nuclear and missile development programme. As will be shown in chapter 1, many of the traditional military approaches used to prevent or solve conflicts have been challenged. They have proved ineffective largely because of the emergence of new sources of international insecurity after the end of the Cold War. State policy-makers began to reconsider their conception of security and to rethink policy options when dealing with the post-Cold War security agenda.

South Korean policy-makers also became increasingly aware of the changing nature of the security environment surrounding the Korean Peninsula. The Soviet Union has dissolved, the bi-polar logic that governed Far Eastern security dynamics has also faded, and thus threat perception among regional actors has very much diluted. Taking advantage of this changing regional security landscape, South Korean policy-makers began to think about the prospect of Korean unification and more independent security options.

For example, following the '7 July declaration' by the President Roh Tae-woo, in 1988, South Korea has undertaken a series of policies designed to improve the precarious security environment: the reconciliation with North Korea through various inter-Korean cooperation initiatives and exchanges, and the *nordpolitik* that aimed at the development of its diplomatic ties with socialist states, especially the Soviet Union and China, former enemies and superpowers in this region. These policy initiatives were designed to create a regional environment in which North Korea would be forced to come to the table of inter-Korean dialogue and it would thus be possible to achieve a peaceful unification on South Korea's terms.

Moreover, the current Kim Dae-jung government of South Korea firmly believes that its consistent and active engagement measures, including economic and social activities and cooperation with North Korea, would bring North Korea into the international community and they would also help it to embrace the market system in the long run. Thus, the so-called 'sunshine policy' towards North Korea adopted by the Kim Dae-jung government is the core of its long-term security approach with regard to North Korean problems, though it understands the importance of military deterrence at the same time. Thus, the changing security environment in the Korean Peninsula gave the South Korean policy-makers the opportunity to create new and appropriate approaches to deal with the North Korean security problems and with the possible Korean unification.

The field of IR also needs to change in response to the post-Cold War security agenda. The existing approach, which tends to look predominantly, if not exclusively, at military issues, has been insufficient and often inappropriate to deal with the post-Cold War security agenda. Particularly, despite the advent of the post-Cold War era, the politics of power balancing between great powers, such as the US, Japan and China still coexists in the Northeast Asia region along with their competitive increases of military capability. Moreover, Korean Peninsula remains one of the most serious spots of instability in the world due to North Korea's suspected nuclear and ballistic missile activities, and also its possible collapse caused by economic hardship. However, neither a solid system of collaboration nor any

multilateral collective security is in existence in this region. In this context, the continuation of military power politics and the lack of regional security cooperation might increase the possibility of conflicts and the use of force.

Thereby, the field of IR should make a contribution to the understanding of the post-Cold War security problems and solutions; it should not be just an analytical tool for explaining international events, but also a resource for policy-makers seeking security policies designed to prevent post-Cold War security crises. In this sense, the post-Cold War era is an opportunity to enlarge the scope of security studies in IR, and to establish new and comprehensive approaches relevant for policy-makers in the formulation of their security policies.

## **Questions**

These observations about the new environment for security policy-making in the post-Cold War period, the South Korea's role in creating a security policy for North Korea, and the role of IR in understanding security policy are the basic context for the questions that will be examined in this thesis. First, after the Cold War, the international security environment changed; the whole issue of security policy-making has been made more complex by the emergence of low-intensity, ethnic and internal instability within states, and by terrorist security threats. As chapter 1 will show, many of these threats cannot be adequately handled by means of military power alone, and instead require more comprehensive approaches, including, possibly, economic engagement based security policy. Therefore, this thesis is concerned with investigating the future implications of global security policy, and is based on the belief that comprehensive and innovative approaches will be required to deal with the post-Cold War security agenda. It will examine the arguments for economic-based interdependence policy as one of the ways to tackle international insecurity.

The second question is concerned with the viability of economic engagement as a security policy for South Korea given the inter-Korean security problems in the post-Cold War period. This thesis analyses the policy-making debate in South Korea to reveal what is

likely to be this state's future security policy with regard to the North Korean security problems in the post-Cold War era. Thus chapter 2 considers whether, after the end of the Cold War, there have been changes in the nature of the North Korean security issues that can be addressed by South Korea's economic engagement with North Korea, and whether this would be a viable long-term security policy.

Moreover, as discussed in chapter 3, this study looks at whether there has been an actual security policy change in South Korea, from a military-maximising approach in the Cold War, to an active and consistent security policy based on economic engagement with North Korea. This question will be answered by looking at the record of the South Korean governments (Roh Tae-woo, Kim Young-sam and Kim Dae-jung) to see whether they actually utilised a type of business-track diplomacy that uses inter-Korean economic interactions and cooperations for long-term security strategy towards North Korea in the post-Cold War era. However, this does not necessarily mean that the South has abandoned its faith in the utility of military power in dealing with the North Korean security problem. This thesis explores if, and to what extent, South Korean policy-makers could instrumentalise economic engagement policy as a long-term security policy *vis-à-vis* North Korea.

The third question, connected to the second, goes even further by asking if there has been policy change towards economic engagement with North Korea by the South Korean governments, and what factors are important for the instrumentalisation of business-track diplomacy. Here, this thesis assumes that the policy-makers' strong policy-making will is an important requirement for the utility of business-track diplomacy towards North Korea to be realised, and this is the case for the Kim Dae-jung government (1998-current).

Then, to find out the crucial factors that have encouraged the Kim Dae-jung government to devote greater policy-making energies to the active and consistent economic engagement policy towards North Korea, the thesis will examine the international and domestic environments during the Kim Dae-jung government in chapter 4. However, in chapter 5, this study will show that the President Kim Dae-jung's strong beliefs about the positive effect of engagement policy towards North Korea was a crucial factor for South

Korea's North Korea policy change under his government. Finally, the thesis also looks at what the constraints are for South Korean policy-makers in creating a new economic engagement or business-track diplomacy with North Korea for the purpose of enhanced security in the Korean Peninsula.

### **Framework and contribution**

In order to explore the overall questions about South Korea's use of business-track diplomacy towards North Korea, both theoretical and empirical approaches are required. Despite the importance of post-Cold War security and economic engagement, and of economic interdependence on the Korean Peninsula as an alternative security approach, the IR literature does not contain studies of these issues which explain them with sufficient and comprehensive theoretical and empirical analysis. For instance, as indicated in chapter 1, there are excellent studies which offer a useful theoretical framework for economic interactions and economic-based security policy. However, while these studies do offer insights into the role of economic engagement in the post-Cold War period, and will be an important part of the theoretical framework in the thesis, they are rarely applied to specific security case studies and lack empirical evidence. These analyses rarely make clear the specific connections between economic engagement and security issues.

With regard to the case of South Korea and IR studies, there have been a number of studies that have pointed to South Korea's economic and social engagement with North Korea as a viable security policy with regards to North Korean problems in the Korean Peninsula. Most Korean specialists are aware of the importance of various engagement measures between the two Koreas for decreasing military tensions and for creating a peaceful environment on the Peninsula. For example, Shin Dong-ik (1997) points out the importance of cooperation among big powers on multilateral engagements towards North Korea, while Beck (1999) suggested that the South Korean government take an active role in inter-Korean economic cooperation.

However, in many ways, the impression is that, in IR, the Korean Peninsula is still regarded as a subject amenable to Cold War style analysis of military relations among big powers, such as US, China, Japan, and Russia, in which the importance of alliance politics and military capability in Northeast Asia features prominently (Jeon 1998; Niksich 1998). Hence, the case of the Korean Peninsula has not been treated as one whose study could help to deepen the understanding of the relations between economic engagement and security. As will be seen in chapter 2, the North Korean security problems, such as North Korea's development of nuclear and long-range missile, are still very much defined in terms of its military threats by the academic and policy-making community.<sup>1</sup>

Moreover, the studies regarding South Korea's economic-based security policy towards North Korea in the 1990s have not produced adequate theoretical and empirical analyses of the relation between South Korea's economic engagement with North Korea and its security policy after the Cold War. In fact, few scholars<sup>2</sup> have tried to produce a comprehensive theoretical and empirical overview of the connections between South Korea's economic engagement and North Korean security problems. Many Korean security studies in the post-Cold War era have been characterised by brief descriptions of South Korean economic cooperation with North Korea with regard to specific events, periods, or situations, such as humanitarian and food assistance towards North Korea and the KEDO project; they lacked an appropriate theoretical framework.

Also, most of the analyses of South Korean economic engagement policy towards North Korea have been based on the analysis of the policies of surrounding, powerful, states such as the US, Japan, China and Russia towards the Korean Peninsula.<sup>3</sup> Thus, attention focuses on the variation in the external constraints faced by South Korea. To be sure, the reason for focusing on the international environment rather than the domestic environment is

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<sup>1</sup> Hughes (1999) is a notable exception in this regard, because he takes into account the security dimensions of North Korea's internal economic difficulties.

<sup>2</sup> The most notable work in this regard is Kim Dae-jung (1997a).

<sup>3</sup> Hahn Bae-ho (1999: 2-3) pointed out that throughout the Cold War and post-Cold War eras, both South and North Korea were most concerned with decisions and actions beyond their control that had originated from their external environments, specifically actions by the superpowers.

that the inter-Korean relations have been much affected by international variables since the division of the two Koreas. However, to deepen the understanding of South Korea's economic engagement policy towards North Korea, a detailed analysis of domestic policy-making process is required, as well as an analysis of international variables. Through the empirical examination of the South Korean policy-making process, this thesis can outline the opportunities and constraints of its use of business-track diplomacy in the service of security purposes.

This thesis, in seeking to answer the questions about South Korea's engagement approaches with North Korea in Korean Peninsula security, and about the necessary prerequisites for the use of economic security policy, will build upon much of the existing work in IR and Korean Peninsula security studies outlined above. However, in line with the need to avoid restrictive security approaches and to find alternative security policies, the aim of the thesis is to produce a structural model of 'business-track diplomacy' that can be used to analyse empirically both the need and opportunity of South Korea's policy of engagement towards North Korea in the post-Cold War era. As will be shown in chapter 1, this model assumes that both South Korea's economic capacity and policy-making will are two prime requirements for the economic engagement policy towards North Korea. However, this thesis asks not so much whether South Korea possesses sufficient economic power for utilising business-track diplomacy, but whether South Korea has the policy-making will to implement the business-track diplomacy towards North Korea as a long-term security approach.

Thus, one contribution of the thesis to the IR and security studies is that the concept of business-track diplomacy, used to deal with the North Korean security problem, can have practical policy implications, for example, in understanding the importance of policy-making will in the utilisation of economic-based security policy for handling post-Cold War security problems. This model will provide ways to think about security problems and to explore alternative security approaches beyond the military-centred security policy. Another contribution is that by looking at various factors that can influence South Korean decision-makers' policy-making will of business-track diplomacy, this thesis explores the impact of



beliefs held by decision-makers on the South Korean policy-making process and also on policy outcome.

This beliefs approach could contribute to the field of foreign policy analysis (FPA) for South Korea by proving the importance of its decision-makers' political beliefs, which has been a variable largely absent from the field of South Korean FPA. According to Kim Hak-joon's (1990) classification of IR studies with regards to South Korea, most studies of South Korean foreign policy have been based on analyses of its relationship with the United States or Japan, and there is a serious lack of domestic level analysis.

Thereby, this is the first study to explore, in depth, the importance of domestic variables in South Korean security policy-making, and thus to give a new perspective on South Korea's security policy beyond the conventional international structure approach. The thesis also hopes that the analysis of the political leader's beliefs (President Kim Dae-jung's beliefs about the positive effect of active engagement with North Korea, in particular) as an important factor in the South Korean foreign policy-making process would widen the scope of the study not only of South Korea but also of the whole FPA field.

The inter-Korean security relation has been chosen for the case study not only because of the enhanced theoretical and empirical understanding of South Korean security policy that it offers, but also because it is an important security problem in itself. As chapter 2 will show, an initial look at the post-Cold War North Korean security problems reveals the persistence to a certain extent of military driven security issues in line with the Cold War security structure; on this basis, the Korean Peninsula is still called the 'last remaining place of the Cold War' in the world. In fact, the continuing threat of military aggression by North Korea and the tension on the Korean Peninsula, as shown in the North Korea's nuclear threats, brought the a real danger of triggering a Second Korean War in mid-1994. These and other threats seem to support South Korea's traditional containment policy toward North Korea, in the form of military alliance with the US, even after the Cold War.

However, the North Korean security problem is one which incorporates the key post-Cold War and global security issues, such as the proliferation of weapons of mass destruction,

including nuclear and missile technology, and also North Korea's internal instability and thus possible collapse due to economic and diplomatic crises. This may lead to guerrilla warfare and social disorder between and within the two Koreas. Thus, North Korea illustrates the entirety of the post-Cold War security problems, and it is of vital importance to security policy-makers in South Korea, the Asia-Pacific region, and globally. For these reasons, inter-Korean security relations in the post-Cold War era are a test case for the limitation of the military containment approach and the need of more comprehensive engagement strategies, including business-track diplomacy.

## **Structure**

Chapter 1 examines the increasing need for economic engagement security policy rather than military power in the post-Cold War world, and outlines a model of business-track diplomacy, as an economic security policy to be tested in the case of post-Cold War South Korean security policy with regard to North Korea. Moreover, the role of leaders in policy-making, and especially their belief that business-track diplomacy is necessary for security, will be introduced as important factors for the utilisation of this type of security policy. Chapter 2 presents the case study of the North Korean security problem in the post-Cold War era, and also demonstrates that the post-Cold War North Korean security problem cannot be handled by military power alone; an economic engagement policy by surrounding states, including South Korea, is necessary to address the security problems. Chapter 3 examines whether there have been policy changes towards a more active and consistent business-track diplomacy in South Korea in the post-Cold War period, by comparing three South Korean governments' security policies toward North Korea. It will be shown that the Kim Dae-jung government displayed a more active economic engagement with North Korea. Related to chapter 3, chapter 4 and 5 examine possible variables that may have influenced policy changes under the Kim Dae-jung government. While chapter 4 looks at various international and domestic variables that may influence policy change, chapter 5 looks at the South Korean decision-making process under the Kim Dae-jung government with special focus on the effect of

beliefs held by President Kim Dae-jung on policy outcomes regarding post-Cold war North Korean security problems as a crucial factor for policy change. Chapter 6 examines the business activities with North Korea of the South Korean Hyundai Group corporation, as an example that provides some insights on the current utilisation by South Korea's business-track diplomacy toward North Korea in the Post-Cold War era. The Conclusion will then summarise the main arguments of the thesis and spell out the implications of the empirical and theoretical discussions for the questions outlined in this Introduction: the role of comprehensive engagement as a security policy in the post-Cold War era, the South Korea's policy-making will for economic engagement with North Korea in 1990s, and the requirements, especially the importance of the leaders' belief systems, and the emerging obstacles for the utilisation of economic engagement policy. Thus, answers for the above questions will provide valuable contributions to security issues in the IR and FPA field.

## **Chapter 1. The theoretical framework: Beliefs and economic engagement policy**

This chapter investigates a set of theoretical frameworks that can be used to analyse the evidence on South Korea's economic engagement with North Korea as a security strategy to address post-Cold War North Korean security problems. This study will show both the limitation of traditional military and containment security approaches and the need to look at economic engagement or interdependence as viable long-term security means to address the post-Cold War international security agenda.

Then, firstly, the concept of "business-track diplomacy" will be introduced as an analytical tool to investigate whether a state actually utilises economic based engagement with the target state for its security purpose. This model will be employed to examine whether South Korea's policy-makers have a strong policy-making will of economic engagement and also whether they instrumentalise the economic engagement approach towards North Korea as a viable security policy to address North Korea's security problems in the 1990s.

Secondly, because the investigation of policy-making will itself is dependent upon the internal policy-making processes of states and upon the nature of the interaction between their main external and internal actors, this thesis will review the Foreign Policy Analysis (FPA) literature. In order to avoid a partial view and to conduct more objective analysis of the South Korean foreign policy-making, this chapter will adopt several FPA theories such as the international system approach, the domestic level approaches, and the beliefs held by decision-makers approach. This comprehensive analysis will help to find out possible factors that might influence South Korea's policy-making will towards economic engagement with North Korea regarding the post-Cold War North Korean security problems.

## **1.1 Global security conceptions**

### **1.1.i Political realism and the Cold War era**

The term 'security' can be generally defined as the protection of values and wealth from various threats. In IR, it can be used at the levels of the international system, the state, and the individuals as well.<sup>4</sup> However, it has been mainly used to mean the 'national security' at the state level in the field of IR; security has been the basic and important responsibility of an individual state towards population in the context of an international system. Like with security at any level, national security concerns arise when vital national interests are perceived as being threatened by external or internal actions or events. National security systems are often directed towards other states and are focused on the political and military sectors, where the state is most strongly established. Therefore, the goal of national security for a state is to ensure the survival and the protection of its vital interests. What is regarded as the 'vital interest' is, however, a matter of subjective judgement, depending on the nation's hierarchy of interests.

However, after two World Wars, political realism has been the dominant paradigm for national security and states' security policy, dictating that the "vital interest" should be protected through military power. In this view, states are locked into a power struggle, and security is the pursuit of power or a balance of power, essentially military power, among states. In terms of threats, other states' possible military attacks are regarded as a primary threat to national security. Therefore, national survival has been regarded as the highest interest for a state and the deterrence of attacks by other states has been the key means to preserve this core value, mainly through acquiring military capabilities.

Certain realists and neo-realists have provided justifications for this view of state security policy. They describe the world as always a potential, and often an actual, battleground. There are two basic assumptions that support this argument. First, human nature is basically self-interested and even aggressive in some cases. Certain classical realists are

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<sup>4</sup> According to David Baldwin (1997: 5), security takes the form of proposals for giving high priority to such issues as human rights, the economy, the environment, epidemics, crime, or social injustice, in

pessimists about human nature. Many realists were influenced in this regard by the political philosopher Thomas Hobbes. In his famous work, *Leviathan*, he argues that “if any two men desire the same thing, which nevertheless they cannot both enjoy, they become enemies; and in the way to their end, endeavour to destroy, or subdue one another” (Quoted in Williams, Goldstein and Shafritz 1994: 28). Second, in the international structure, there is an absence of appropriate problem-solving mechanisms. The neo-realist Kenneth Waltz (1959: 232) tells us that “wars occur because there is nothing to prevent them”. Therefore, a combination of negative biological determinism and a lack of appropriate problem-solving mechanisms are the reasons for violence and wars between states. A state’s decision-makers must therefore do anything and everything they can to defend their basic interests, and to maintain the survival of the state. In this view, the world is clearly a black and white one. Deutsch (1973) refers to it as being characterised by ‘competitive’ processes of conflict resolution and power-based, adversarial, confrontational, zero-sum, approaches to dealing with security.

During the Cold War era, conceptions of national security were relatively clear and easy to define. In line with the realist argument, military capabilities have been the main requirements for a state confronting a harsh international environment. In fact, the bipolar-system, divided along East-West line, gave states clear enemies as well as clear policy strategies and objectives. For instance, the U.S. security strategy in the Cold War period was the containment of communism, based on the balance of military power with the USSR, while many less powerful states followed U.S. security guidelines and were brought under its umbrella. Waltz (1979: 170-6) has argued that the bipolar-structure meant simplicity, predictability, manageability, stability and, consequently, less war. In this international environment, national security studies were produced mostly by scholars interested in military statecraft. Thus, “if military force was relevant to an issue, it was considered a security issue. However, if there was no military aspect involved, that issue was categorised as low politics”(Baldwin 1997: 9).

### **1.1.ii International security agenda after the Cold War**

The end of the Cold War has brought great changes in the international security environment, and thus brought a policy debate among political leaders and IR academics around world as to the meaning of national security and the appropriate means to deal with various security issues. Because of the collapse of the USSR and global communism, the importance for national security of the conventional military alliance system based on the division between East and West has diminished. Buzan (1991), for instance, argues that the term security is an 'underdeveloped concept', and the idea of national security should be conceptualised within a more comprehensive approach, including societal problems at the domestic level, and also non-military factors such as the economy, identity and environment. Baldwin (1997) also points to the necessity to specify the security conception. When discussing a national security policy objective, specific definitions of national security should be used. For example, this would include criteria as to what threats, what means, what cost, and in what period of time should be shown to be present in order to explain certain policy choices and objectives of states. Thus, this thesis looks at what are the implications of the new international security environment in the post-Cold war era by specifying the security conception.

#### **1.1.ii.a Domestic instability and the limitations of military power**

The sources of insecurity in the new global environment are quite different from those identified by in the traditional conception of national security during the Cold War era. Former UN Secretary-General Boutros Boutros-Ghali (1995: 2), for instance, asserted that "the problems presented by conflicts such as those in former Yugoslavia, Afghanistan, Rwanda, and Somalia are in many ways unprecedented". Put differently, the most prevalent signal in the 1990s, since the end of the cold war is the occurrence of civil wars and local and regional conflicts. Here, Buzan's (1991: 112-6) concept of 'weak states' can be used to explain the emergence of new security threats. In his view, since the Cold War order, which required the strong cohesion of a state as a condition for national survival, was diminished, the weak states that lack social and political cohesion could become a source of intrastate

disputes and conflicts in the post-Cold War period. Domestic disruption may be triggered by, for example, political, ethnic, religious or economic sources.

Lake and Rothchild (1996) present an interesting argument to explain the spread of intrastate conflicts in the post-Cold War period. They argue that the reason for ethnic violence within a state is not historical hatreds among inter-groups that have been suppressed by repressive regimes or by the harsh Cold War international environment. Rather, intrastate conflicts are caused by collective fears of the future. Domestic uncertainty and thus insecurity is caused by fear and economic difficulties are the most fundamental source for the spread of conflicts within states (Lake and Rothchild 1996: 41-3). Thus, the domestic instability of a country, rather than traditional external threats from other states, become the significant and urgent problem for international and national security. Flynn and Farrell (1999), for instance, point out that the end of the Cold War has impacted significantly on Europe's security situation because the most immediate threats to Europe's security in the 1990s have originated not from traditional interstate relations but from instability and conflict within states that have threatened to further exacerbate interstate security issues.

With new global security threats, there has been a growing realisation that traditional military capability does not prevent or deter many international conflicts. The situation during the cold war was marked by a relationship between higher military power and higher stability. However, the current international security environment is characterised by lower external military threats and higher internal instability. Hence, scholars in IR and IPE began to reconsider the notions of national security and threats, and to seek innovative means to deal with the post Cold War security agenda. For instance, given the current trend of globalisation, some argue that the focus on military security has both narrowed the range of security studies, and delimited the sphere of IR itself. Clark (1999: 126) argues that "security is a construct not of a historically frozen realm of power-hungry states but of a dynamic process of interaction among individual, groups, states, and international institutions all of which are capable of adopting their sense of self-interest".



In terms of means to pursue national security, the decreasing effectiveness of military power in dealing with security issues can be found in several aspects of the post-cold war period. First, major powers seem to be less interested in the use of military power in international conflicts. For instance, Carter and Perry (1999) pointed out that there is no imminent threat to the survival of the United State like the threat from the former Soviet Union in the Cold War period. Rather, the post-Cold War period holds many indirect threats to US interests, but no real military threats to America's survival. Post-Cold War intrastate and ethnic conflicts zones, such as Kosovo, Bosnia, or Somalia, do not affect directly US interests. These events are regarded as "C list"(Carter and Perry 1999: 11-4) for US security concern. However, these 'C-list' events seem to be the frequent source of post-Cold War international security problems. Even when major powers agree to restore regional and international stability and to support humanitarian efforts, the growing cost of interventions, including resources for military and humanitarian operations and possible human casualties, is too high in terms of the major powers' national security interests. Therefore, domestically, major powers and their leaders are not eager to intervene and to use military means in these intrastate conflicts.

Moreover, the major powers are not willing to use military measures against each other. This can also be found in the international security environment in the Korean Peninsula as enhanced by the end of East-West power blocs and the normalisation of relationships between South Korea and Russia and China respectively. Rotfeld (1997) points out that one of the characteristics of the post-cold war security order is that no major power is eager to engage in conflict with another; they are willing to cooperate and decrease the tension amongst them. The US security strategy of promoting democratisation and the spread of open markets, China's economic progress, and Russia's economic reforms are vivid aspects of the decrease of the political significance of the military dimension, and also of the growing importance of the economic dimension in national security structure (Rotfeld 1997: 4-6). Moreover, under conditions of globalisation, the emerging international security agenda is more focused on individual well-being issues rather than on issues which were prevalent

under the bipolar system (Rothfeld 1997: 13-4). For instance food, health, human rights and environmental protection become important issues for the international security agenda along with the growing cooperation among non-governmental organisations across national borders.

Second, the limited effectiveness of military action is also reflected in fact that the international norm of sparing use of military force to resolve disputes between states is becoming important. In fact, “the use of force by one major power against another power is either politically unthinkable, or very expensive, with costs that include the danger of escalation to the use of unconventional weaponry. Moreover, for some the challenge is to make any such use of force between major powers even more unlikely and to forge agreement about when using force is legitimate”(Haass 1999: 40).

This trend is also growing due to the perceived need for multilateralism in the international security structure in international relations. Nowadays it is difficult to use force without consulting other states that have stakes in the event of conflict. For example, Mazarr (1995: 183-8) argues in his research on the North Korean nuclear crisis in 1990s that coercive military and economic punishment were neither likely be selected nor likely to be an effective means of addressing North Korea’s nuclear development because of the complexity of the multilateral security framework among states and international institutions that had stakes in this event. Thus, Mazarr indicates that just as the bipolarity of military power was the essential geographical framework for the cold war, so diplomatic multilateralism seems to be becoming framework for the post cold war period, as discussed later in chapter 2. Given these limitations of the traditional military power approaches, the next sections of the chapter explore alternative security approaches regarding post-Cold War security problems.

#### **1.1.ii.b Economic engagement as an alternative security approach**

Economic engagement, as one of the alternatives for tackling international insecurity, could contribute to establishing stability and peace around world. This means that the range of appropriate means in the service of security objectives can be extended from mainly military measures towards comprehensive methods which combine with economic measures and

military power. In fact, the importance of the economic aspect of security policy is not a new phenomenon and it was evident even in the Cold War era. Throughout the Cold War period, economic power was the core foundation of military power, which was regarded as the main means for pursuing national security. In order to fight wars, states needed to be concerned with their industrial capacity, steel production, access to energy, technological capability and other factors required to support a defence establishment (Knorr 1977). President Nixon's New Economic Policy of 1971 reflected the concern over the high cost of military actions and the importance of economic power for the national security capability. With growing concern over the primacy of economics and economic capability for building-up military power, a country's economic stability and growth become central national security priorities.

However, economic interactions and interdependence among states has in itself a potential for being a tool in the service of security objectives. For instance, US President Clinton tried to articulate his foreign policy agenda by offering the concept of 'democratic enlargement' with military power after he took the oval office in 1993. He argued that "democracies rarely wage war against each other"(The White House 1994: 3). This was further developed as the national security strategy of 'Engagement and Enlargement'. US's grand security strategy was about spreading democracy through promoting free trade. The importance of economic measures in the Clinton administration's foreign policy is quite different from that of the Reagan and Bush administrations. Economic power not only served as the foundation of national security capabilities but also as the instrument of national security.

For instance, Friedman (1993: A3) identified the core of the Clinton administration's enlargement strategy as "Big Mac I: no two countries that both have a McDonald's have ever fought war against each other". Moreover, in terms of Europe's security situation in the post-Cold War period, Flynn and Farrell's (1999) concept of the 'democratic peace' indicate that European states are making collective efforts to promote democratic regimes in the continent as the long-term security strategy. They also acknowledge that most European countries believe that conventional military capacity alone cannot provide a long-term answer for post-

Cold War security problems, and that the spread of democratic government throughout the European states will generate sufficient legitimacy in each state, and thus defuse conflicts caused by domestic instability. In sum, the post- Cold War era shows the emergence of new means to preserve international stability and peace. These measures include the creation of democratic regimes in states, and economic and social interdependence among states.

This thesis also looks at economic engagement, and so interdependence, as a possible means to reach desired security objectives in the post-Cold War period. As will be discussed in Chapter 2, North Korea's security problems in the post-Cold War era cannot be prevented by military capability alone, and the states involved such as US, Japan, and South Korea, might require active engagement approaches, including economic interactions with North Korea, in order to address the post-Cold War North Korea security problems and to ultimately achieve peaceful Korean unification in the long-term.

## **1.2 Economic interdependence and national security**

### **1.2.i Literature review on the relationships between economic interdependence and national security**

The relationship between economic interdependence and national security has been a crucial subject for debate among different schools in international politics. The idea of economic interdependence has important implications for security issues. It is certainly not a new or difficult notion; that two or more units are dependent on one another in economic benefit. However, the question of the connection between economic interdependence and national security is not an easy one to answer. Economic interdependence is to many pluralists what the balance of power is to realists and what dependency is to many neo-Marxists or globalists. The following section reviews some of these ideas of the different schools of thought in the field of IR and IPE.

According to the dependency theorists, international economic interdependence means that the nation-state is more vulnerable to crises originating in other parts of the system. If state is dependent on other for investment, trade, or raw materials, the incentive to

intervene in foreign conflicts that threaten the availability of these supplies will be very high. Such economic interdependence could either exacerbate the conflict by encouraging other outside powers to exploit it, or minimize the conflict by increasing the effectiveness of deterrence. Also, the wealthy states are structurally and actively exploiting the less developed states in an effort to keep them economically dependent. Galtung (1968) has called attention to the structural inequality that forces the Less Developed Countries (LDCs), or what he calls the 'periphery', to concentrate on the production of raw materials for export. This means that such states are denied the added value that would come from processing their own products and are also forced to pay the transportation costs required to import the processed goods. Thus, dependency theorists articulated the negative consequences of asymmetrical trade relations for the less developed states.

Neo-realists found some common ground with dependency theorists in their skepticism towards the positive effects of economic interdependence. It may or may not enhance prospects for peace. Conflict and not cooperation could just as easily result because interdependence involves vulnerability. In other words, because of the different degree of dependence among different states, some states feel more vulnerable towards other states. Hence, for neo-realists, the way to establish peace is to eliminate or minimize contact among opponents or potential adversaries. Separation from other units, if that were possible, would mean less contact and thus less conflict, since "close interdependence means closeness of contact and raises the prospects of occasional conflict"(Waltz 1979: 138). Grieco (1988) supported Waltz's argument through his conception of 'relative gains'. He argued that neoliberalism has been preoccupied with actual or potential absolute gains from international cooperation or interdependence and has overlooked the importance of relative gains. He suggested that "the fundamental goal of states in any relation is to prevent others from achieving advances in their relative capabilities"(Grieco 1988: 498).

Thus, some argued for the necessity of hegemonic power in international politics in order to establish international stability. Gilpin (1987), for instance, argued for the importance of hegemony in enhancing international cooperation on nonmilitary issues. According to the

theory of hegemonic stability, the absence of hegemony, or leadership, may result in chaos and instability, as happened in the 1930s when the United States was unwilling to assume leadership of the world economy and Britain, given its weakened position, was unable to do so. The hegemon influences states to cohere and establishes the rules by which international relations are to be conducted in various issue areas. In sum, the realist view of interdependence challenges many conventional ideas associated with the concept of interdependence: (1) Interdependence is not necessarily a good thing for any one particular state if interdependence is defined in terms of vulnerability; (2) Increasing interdependence may produce conflict as opposed to peace; and (3) in an interdependent world, there are certain virtues in having a hegemonic power capable of enforcing stability in a number of different issue areas.

However, pluralists take economic interdependence to be the core of international relations. There are three basic ways in which economic interdependence between states can help to reduce conflict and promote peace. First, free trade supporters (Oneal and Russett 1997; Polachek 1997) envision a peaceful world evolving from economic interdependence and economic interests, in which each state produces the products in which it has a comparative advantage. Such a system would work to the economic benefit of all, but more importantly, it would generate such interdependence that conflict between states would have to be reduced for fear of disrupting important external sources of supply and thus economic growth. Economic interests would force political leaders to seek peace in order to maintain economic prosperity in an interdependent and specialized world.

Second, in the cultural explanation of trade and conflict, functionalists and neo-functionalists point out that collaborations in the non-political and functional sectors provide for a more peaceful world. According to functionalists, involvement in economic transactions across states will tend to generate common ways of looking at issues and new loyalties in which individuals begin to recognize the interests they share with people in other societies. David Mitrany's (1966) 'ramification' and Ernst Haas's (1964) 'spill-over' effect indicated that the development of collaboration in one sector leads to comparable behaviour in other

sectors as a result of learning from cooperation. Hence, power-oriented governments can redefine their self-interest and can adopt welfare-oriented actions rather than military-oriented actions. These forms of cooperation lead to international institutions and other economic or social linkages between states that make military measures in conflicts more unacceptable.

Similarly, Keohane and Nye (1977) proposed the idea of complex interdependence, a situation in which one state cannot take advantage of an other state because of evenly balanced mutual dependence between them. Keohane and Nye (1977: 99-112) present three main structures which decrease a country's dependency on another country. First, multiple channels, such as non-governmental activities and ties as well as formal foreign office arrangements, should be established. Second, the agenda of interstate relationships, which consists of multiple issues, should not be arranged in a clear hierarchy. This means that military security does not consistently dominate the agenda. Third, military force should not be used for resolving disagreements. In sum, economic interdependence is deepened by non-military activities including economic exchanges that can change another state's behaviour and make it act more peacefully through its redefinition of common interests and through domestic pressure from multiple channels and linkages in the interstate system.

Third, some argue that peace can result from democratic practices between states (Gleditsch and Hegre 1997; Oneal and Russett 1997). Coordination and bargaining are so embedded within democratic societal norms that democracies are able to solve disputes peacefully, especially with other democracies. Another explanation is that there are so many checks and balances in the democratic decision process that making the decision to fight is difficult and not taken easily. Non-democracies, such as dictatorships, need less justification to go to war. In terms of 'democratic peace,' trade and economic interactions can contribute to the transformation towards democracy: Democracies usually are free-market or mixed economies open to the world economy (Russett and Starr 1996: 344-8). Therefore, economic

openness and interactions can contribute to the development of a democratic society, although questions remain about the causal relationships between democracy and international peace.<sup>5</sup>

As discussed above, there are various arguments for economic interdependence in terms of its role in international peace. Dependency theorists and neo-realists are skeptical about economic interdependence as a possible mechanism for international peace, and emphasize the vulnerability of dependent states and their exploitation by dominant states. However, following the pluralists' view about economic interdependence, this research explores the positive aspects of economic interdependence as South Korea's policy means in the service of its national security objectives: peacefully resolving the post-Cold War North Korean security problems and the Korean unification in the long-term. Therefore, the next section will introduce various types of state economic security policies, and will clarify the notion of economic security policy that this study seeks to evaluate for the Korean case.

### **1.2.ii Types of economic security policy**

If the state is taken as the main player in economic security policy, there are four different conceptions of economic security policy in terms of state goals and means. The first type of economic security policy is referred to as a policy intended to increase or preserve the wealth and welfare of the citizens. Buzan (1991: 241) referred it as a way "to equate security with the economic conditions necessary for survival". States require ready access to the means necessary for their survival. For example, there are basic needs such as agricultural and resources for essential industries. For instance, South Korea and Japan do not possess sufficient resources, so trade becomes an essential part of their basic economic security policy. Murdock (1977: 69) points out that this type of economic security sees the "economic issue as the security issue itself". This type of economic security policy is related to economic efficiency and the decrease of vulnerability, and it is developed along much same line as the

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<sup>5</sup> According to John Rourke (1991: 118-9), democracy is not always a force for peace. The concentration of executive power and also public pressure towards war might lead a government to wage war. The US Johnson administration's intervention in Vietnam, the Carter administration's attempted hostage rescue in Iran, and the Reagan administration's sale of weapons to Iran are



realists argument. Knorr (1977) points out that economic vulnerability that stems from interdependence should be regarded as a security problem. The concept of 'national coping mechanism' (Murdock 1977: 75-6) can be seen as this type of economic security policy. The mechanism is characterised as either 'defensive' or 'offensive.' The defensive mechanism refers to reducing vulnerability by internal adjustment, such as domestic monetary control policy and regulations on exports and imports. The offensive mechanism refers to the use of national capability to prevent external actors from exploiting national vulnerability, for instance by creating rival trading blocs within a multilateral framework. Thus this type of economic security policy aims to secure the economic well-being of a state through the types of measures discussed above.

The second type of economic security policy is concerned with instruments of economic power that enable a state to punish another state and thus affect the latter's behaviour before and during a political, military or economic conflict. This type of foreign policy is often called "stick." There are many techniques for using this policy: trade embargo, boycott, freezing assets, aid suspension and so on. Knorr's (1977: 99) conception of 'coercive economic power', Baldwin's (1985: 40-42) 'negative sanction' Strange's (1997: 24-6) 'relational power' point to this type of economic security policy. This type of economic security policy is a short-term and conditional economic pressure through the denial of economic resources to a target state in return for the target state's favourable political or military reactions. However, this type of policy can be unsuccessful. It is arguable that this policy can increase the risk of war, by sending such a strong signal to a target state that this might respond through warfare (Baldwin 1985: 111-4). Other negative results of this policy are ineffectiveness and immorality. Some argued that in the case of sanctions toward Iraq after Iraq's invasion of Kuwait in 1990 failed to determine Iraq to withdraw from Kuwait and only hurt the Iraqi people and contributed to consolidating Saddam Hussein's regime. (Said and Lerche 1995: 75-6). Because of the unpredictability of the results and the unintended effects of these relations, this type of policy is only of limited usefulness.

The third type of economic security policy uses economic means to force other states to change their behaviour in the face of potential or actual conflict in political, economic, or military matters. Also, economic disputes between states and economic hardship in a particular state can generate domestic and international instability and may promote military conflicts. Thus, the aim of this policy is to preserve a peaceful environment and to prevent conflict between states by both offering economic benefits to a target state in return for its desired behaviour and by decreasing the source of conflict in terms of economic problems. The opposite of the “stick”, the third type of economic security policy is often called “carrot”. Said and Lerche’s (1995: 74) idea of ‘persuasive economic technique’ and Baldwin’s (1985: 40-2) concept of ‘positive sanction’ can be seen to refer to this type of policy. The usual technique of for implementation of this policy is economic aid: direct grants or favourable loans, development assistance, investment and so on. Examples of this type of policy include the US Marshall plan after World War II, which supplied capital for the redevelopment of the European economies, and the financial and technical assistance of industrialised countries toward Eastern Europe and the former Soviet Union to prevent the re-emergence of communism. Also, the construction of a light-water reactor (LWR) in North Korea by KEDO (Korean Peninsula Energy Development Organisation) in return for North Korea’s abandon of the nuclear weapon programme as a solution for the 1994 North Korea’ nuclear crisis is also an instance of this type of policy, which will be discussed in Chapter 2. However, this type of policy is also used like the second type of economic security policy when short-term conflict can be prevented in a peaceful manner, or to prevent future potential international instability.

Finally, the forth type of economic security policy is making peace and cooperation between states through economic and social interdependence. Economic and social interdependence through trade and other economic activities are the basic means to promote security objectives. What is different from the second and third types of policy is the longer-term commitment: policy-makers perceive the long-term impact of economic and social interdependence on peace and stability. Strange’s (1997: 31) concept of ‘structural power’ also applies where “the range of options open to others will be extended by giving them

opportunities without direct pressure they would not otherwise have had". Also, 'complex interdependence', which consists of multiple channels and an absence of hierarchy among issues, provides for the establishment of less use of military force, and the use of nonviolent means to resolve disputes (Keohane and Nye 1977). This type of policy aims to help establish economic and social linkages that are mutually beneficial to states. Economic interactions among states will increase the 'sense of community' (Deutsch 1957: 5) through economic ties and social communication between them. The 'liberal peace' thesis, which is used to explain peace among industrialised countries, also makes reference to this type of policy (Russett and Starr 1996: 325-48).

As discussed above, the first type of economic security is designed to decrease a state's economic vulnerability by using several mechanisms discussed earlier. However, this is not the type of economic security this thesis focuses on. The second type of economic security policy is to use economic power in order to push target states to behave more favourably towards a state, and it uses economic "sticks". However, this policy often increases the risk of war and is often used as a pressure in combination with military power. Thus, the first and second types of economic security policies are similar to the realist arguments which see economic interdependence as a possible cause for escalating conflicts.

However, the third and forth types of policy are based on the premise of the liberalist arguments. In order to explore the positive aspects of economic engagement and interdependence in the case of the inter-Korean security relations in the post-Cold War era, this thesis looks at the third and forth types of economic security policies as South Korea's possible security approaches in the service of its security goals with regard to North Korea. Although the third type of economic security policies make use of the short-term impact of economic measures to affect the target state's behavior in the event of conflict, they can be important as a stepping-stone to economic interdependence in the long-run. In this thesis, the economic interdependence strategy refers to a long-term commitment and thus to the promotion of an environment of economic linkages and other social relations in which a target state is less likely to resort to coercive strategies to resolve disagreements.

### **1.3 Business-track diplomacy**

The previous section identified the types of economic security policy which this study will focus on. This section will introduce the concept of 'business track diplomacy' based on the above third and fourth types of economic security policy which will be employed to investigate the case of South Korea's policy-making towards North Korea in the post-Cold War era.

As discussed in the Introduction, the end of the Cold War, followed by the German unification, have caused policy-makers in South Korea to consider approaches for a breakaway from South Korea's military and containment security policy towards North Korea. The need for new security approaches by South Korea has also been enhanced by the fact that North Korea's economy has come near to collapse, at least from the perspective of the outside world, in the 1990s; there is the possibility that it will implode or explode due to economic hardship.

Thus, the question of how South Korea can best deal with the post-Cold War security threat posed by North Korea has been raised. One of the new approaches to ease tensions on the Korean Peninsula and lower the security threat to the region is to engage North Korea economically. However, South Korea's difficulty in the promotion of inter-Korean economic cooperation is the fact that North Korea has tried to avoid direct contacts with South Korean government due to fear of absorption by the South. Instead, the North has made continuous efforts to engage with the US, Japan, and even South Korea's private sector, especially the business community, for its survival. Thus, certain South Korean political leaders, especially President Kim Dae-jung and his supporters, began to realise the need for an active role for the private sector in regards to inter-Korean economic cooperation.

One of the notable avenues for resolving conflicts and making peace based on the above third and fourth types of economic security policy and the important role of the private sector in those economic security policies is expressed in the concept of "business-track-diplomacy" (Diamond and McDonald 1996). In fact, business-track is one of nine tracks in

their model of 'multi-track diplomacy'.<sup>6</sup> They outline nine different tracks, which comprise a system for creating international peace. The nine tracks are: government, non-governmental conflict resolution professionals, business, private citizens, research and education, activism, religion, funding and the media.

Track three, business-track diplomacy is related to the notion of liberal economic security policy discussed earlier. Peacemaking through commerce operates by enhancing the economic health of peoples and nations, thereby relieving some of the economic pressures of poverty and unsatisfied human needs that can lead to domestic disorder, and possibly conflict. Moreover, it is the exchange mechanism of the system that opens the doors to social relationships between the states and also between the private and public sectors. These interactions, through goods, services, or information, create mutual confidence among them (Diamond and McDonald 1996: 52-6).

Trade is a major vehicle through which global interdependence is actualized, so it can be a doorway to bonds of mutual trust and benefit that strengthen ties between states. Thus, the concept of business-track diplomacy is concerned not only with common economic interests but also social and cultural bonding through continuing contacts and exploring common interest. It is closely associated with Deutsch's (1957) notion of a 'sense of community.' He argued that trade and other forms of intercultural exchange would help foster the development of a common identity, which makes resorting to violent forms of conflict resolution increasingly unlikely.

This model was developed as a reaction to the frustration that formal, official, government-to-government interactions between representatives of states were not necessarily effective methods for securing international security, and often resulted in states' use of coercive power to resolve conflicts. Thus the role of non-state actors in international peace is

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<sup>6</sup> It has evolved from the concept of 'Track Two diplomacy,' which focused mainly on the work of non-governmental professionals to help formal negotiation between states in the field of conflict resolution. Track-two operation is design to assist official leaders by compensating for the psychological constraints such as tension, anger, fear or misunderstanding imposed on them and by improving communication, understanding and relationships among them. Montville (1987: 7) described it as "a process designed to assist official leaders to resolve or to manage conflict exploring possible solutions

an important feature of this system. Diamond and McDonald (1996: 2) point out the contributions of non-state actors to international peace: “to reduce tension and conflict between groups or nations by improving communication, understanding, and relationships; to decrease tension, anger, or misunderstanding by giving people direct personal experience of one another; and to affect the thinking and actions of governments by addressing the root causes, feelings, and needs which have caused the conflict”.

Thereby, non-state actors carrying out their goals are an important premise of business-track diplomacy. The business community, such as Multinational Corporations (MNCs), will be the essential forces driving this business-track diplomacy in the service of security purposes. As will be discussed in chapter 6, Hyundai Group’s strong interest in pursuing business with North Korea greatly helped to enhance Kim Dae-jung government’s engagement efforts towards North Korea.

However, this does not mean that the government is not an important actor in this model, because it is still where ultimate decisions are made concerning war, peace, and the commitment of national resources. Diamond and McDonald (1996) still see government as the most important actor in operating ‘multi-track diplomacy’. They point out the importance of intra-systemic cooperation between the government and the private sector, and argue that governments are the only part of the multi-track system that can conclude formal agreements and treaties with other nations. As will be discussed throughout this research, because there are continuing political and military tensions between the two Koreas even in the post-Cold War era, South Korean governments’ political energy would be necessary to create a favourable environment for the private sectors to engage in business in North Korea.

In fact, private sector diplomacy will not be successful without an alliance with the government. Thus, cooperation between the private sector and states is needed to use business-track diplomacy in the service of security objectives. When the relationships between the private and the public sector are adversarial or undeveloped, the multi-track activity operates with unfulfilled or distorted potential. Therefore, a “natural alliance”

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out of public view and without the requirement to formally negotiate or bargain for advantage”.

between the government and the private sector is the most important requirement for the success of this diplomacy (Diamond and McDonald 1996: 156-61).

The concept of business-track diplomacy therefore provides a vision for the security policy of South Korea regarding the post-Cold War North Korean security problem. This concept is based on the notion of liberal economic interdependence, and this study hopes that it may be applicable to the wider post-Cold War security agenda. However, at present business-track diplomacy can be considered as an ideal rather than a set of concrete prescriptions for South Korea's security policy. Thereby, the following sections will focus on the tasks of building a model that is applicable to the inter-Korean case.

### **1.3.i Prerequisites of business-track diplomacy**

If a state as a whole is to pursue and actually implement business-track diplomacy towards a target state for its security objectives, it needs to possess two important prerequisites: 'policy capability' and 'policy-making will'. First, policy capability refers to the possession of economic resources by either the government or the private sectors to conduct economic activities with target states in the service of security concerns. Second, policy-making will refers to the will of the government and private sectors to pursue business-track diplomacy consistently as a long-term security purpose. Moreover, because the government and the private sector may have different interests and motivations for engaging in economic activities with target states, policy-making will require close cooperations between these two sectors.

#### **1.3.i.a Economic capability**

The first prerequisite of business-track diplomacy relates to the economic capability of a state and its private sector. Capability means the possession of economic capacity by actors sufficient to make a target state interact economically with them. The question therefore is whether a state has economic power to engage with target states through business activities. In order to engage with a target state, a state, both in its public and private sectors, should

possess essential economic assets that a target state is looking for through its own economic activities. The components of economic capacity can be production, finance, trade, energy, food and technology.

Another important aspect of economic capability is related to a target state's vulnerability. Put differently, a target state has to see tangible benefits from economic interaction. Thus, a target state's economic difficulties and so the vulnerability can increase the economic capability of the actors in the other state to utilise business-track diplomacy. Vulnerability could result from the economic or security threats caused by international economic interdependence. Conversely, economic self-reliance or independence may increase economic difficulties and thus potential vulnerability to external factors. The case study of North Korea's economic difficulties presented in Chapter 2 clearly indicates this type of situation. North Korea's lack of adaptability to international trends of economic interdependence and liberalisation in the Cold War era actually contribute to its economic insecurity and thus ironically increase its vulnerability to external forces (Gills 1996).

### **1.3.i.b Policy-making will**

Following on from the capability for business-track diplomacy, the second prerequisite of this model is policy-making will, which refers to the policy-makers' will for an actual mobilisation of the economic capability in the service of security objectives. However, the pursuit of economic-based forms of security policy, which are aimed at the long-term establishment of complex linkages and interdependence with a target state, is not easy compared with military security policy; the latter is relatively easy to mobilise and can quickly satisfy domestic and international political demands for action. Since the positive effects of business-track diplomacy may only become visible in the long term, it can be assumed that the pursuit of consistent business-track diplomacy would require a high degree of political will and energy by the actors.

As pointed out earlier, the most important actor in this regard is the government. Political will for policy-making in a way that utilizes the business-track diplomacy is required



in order to enhance the activities of the public and private sectors doing business with target states in the service of security objectives. Even though non-state actors are increasingly important as economic actors, the government is still the largest political and economic actor with legal and political authority, and financial resources to promote this type of policy. Thus, the policy-making will of the government is a key factor in the actual instrumentalisation of this policy. Chapter 3 looks at the policy-making will of the South Korean governments (Roh Tae-woo, Kim Young-sam, and Kim Dae-jung governments) towards the utilisation of the business-track diplomacy and the its impact on South Korea's engagement with North Korea in the post-Cold War era.

The other important actors can be business community, which is key possessor and facilitator of economic capacity. The will to engage in economic activities in other states by private sectors might be mainly dependent upon expected economic benefits. Thus, it can be imagined that the business environments of target states, and the short and long term profit expectations of the business community are important factors for enhancing business will. The example of the South Korean business community's active involvement with China and the former Soviet Union indicates that business interests regarded the two powerful states as potential markets and this was an important factor in the chaebols' (South Korean conglomerates) participation in the South Korean government's '*Nordpolitik*' in service of security objectives. However, as Strange (1996) pointed out the intentions of the MNCs are not purely profit-related and may have other motivations, for instance, much longer-term considerations like corporate survival.<sup>7</sup> Therefore, political decisions rather than just the profit-based strategy of business community will be investigated, and thus it is necessary to look at the decision-making of the MNCs. This question will be addressed in chapter 6 by documenting the Hyundai Group's decision to engage in several inter-Korean business projects including Mt. Kumgang tourism.

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<sup>7</sup> Strange (1996: 186) quoted Peter Drucker's argument that "[t]he head of a large transnational corporation is a modern Prince, a strategist who must negotiate his way through a hostile world. . . Most companies have seen an enlargement of their political functions with units devoted to public affairs and embassies".

### **1.3.ii Policy-making will and foreign policy analysis (FPA)**

The previous discussions introduced the “business-track diplomacy”, the theoretical model to be used to test South Korea’s ability to use economic engagement towards North Korea to address post-Cold War security problems. Then this study intends to focus on whether there has been enough policy-making will of business-track diplomacy in South Korea in the 1990s.

As pointed out above, if a state is to perform business-track diplomacy, it needs to possess both economic capability and policy-making will. The first prerequisite of economic capability, which is concerned with the economic capacity possessed by a state both in government and private sector to initiate an economic engagement policy with a target state in the service of national security objectives, is an essential factor for the success of this type of security policy.

This thesis, however, is concerned more with actual policy-making will towards business-track diplomacy. As discussed in the Introduction, the main aim of the study is not to examine whether South Korea possesses the necessary economic capability for effective business-track diplomacy towards North Korea, though this question will be addressed to a certain extent, but to reveal whether South Korean policy-makers have had the policy-making will to carry out business-track diplomacy toward North Korea as a long-term security policy.

Thus, the importance of policy-making will in the utilisation of business-track diplomacy will be examined in detail. Because policy-making will itself is dependent upon the nature of the internal policy-making processes of states and the interaction between their principal international and domestic security actors, this thesis investigates the case of the South Korean foreign policy-making process with regards to the North Korean security problem in the 1990s. Hence, it is necessary to review the Foreign Policy Analysis (FPA) literature to establish the appropriate theoretical tools to investigate South Korean policy-making process with regards to post-Cold War North Korean security problems.

## **1.4 Theoretical approaches in FPA**

This section introduces possible analytical methods for explaining a state's policy decisions and thus the policy-making will of South Korea. In order to probe the "why" question underlying South Korea's security policy toward North Korea in the post-Cold War era, and especially the policy change towards active economic engagement with North Korea under Kim Dae-jung government, several possible external and internal variables should be examined as crucial factors. As its policy towards North Korea is assumed to be a foreign policy, it is necessary to review the foreign policy analysis (FPA) field. The main reason for the review is that without a comprehensive assessment of several analytical tools, there would be a danger that a singular approach in isolation would produce only a partial analysis of the event.

In fact, there have long been concerns and debates with regard to the question of what constitutes the appropriate unit for explaining a country's foreign policy. Thus, various approaches in this field have been developed. For example, Rosenau (1966) distinguishes five different levels: the individual, the role, the regime, the domestic society and the international system. Also, Waltz (1959) distinguishes three levels: the individual, the state and the international system. This thesis looks at international and domestic approaches and then introduces the importance of beliefs held by key decision-makers in foreign policy making.

### **1.4.i International system approach**

For years IR theorists have argued for the relative importance of the external factor in determining a state's foreign policy. Some advocates of realism define the primary goal of foreign policy as survival in the international system. In this literature, the issues that have the most influence on foreign policy are security, military power, alliance politics among states, and the pursuit and balance of power (Morgenthau 1993; Waltz 1979). This "billiard-ball" model, as Hill and Light (1985: 157) have put it, sees foreign policy as determined mostly by the interplay among states. Thus, this approach sees that the international environment mainly determines a state's policy because all states react similarly to the same

objective external situation. So, changes in a state's domestic regime, its bureaucratic structure, and decision-makers' personalities and opinions are assumed not to lead to significant changes in foreign policies. Wolfers (1962: 13), for instance, put it this way:

The greater the external pressure, the greater the similarity of behaviour and therefore less the need to study the internal decision-making processes . . . imagine a number of individuals, who find themselves inside a house on fire. It would be perfectly realistic to expect that these individuals, with rare exceptions, would feel compelled to run toward the exits. . . Surely, therefore, for an explanation of the rush for the exits, there is no need to analyse the individual decisions that produced it.

As Rosenau (1966: 47-8) suggests, the international environment is more important in determining the policy of small states than that of powerful states because of the greater impact of external pressure on small states. Thus, a small state like South Korea, compared with other countries, such as the US, Russia, China and Japan, has a security policy which might not have resulted from the internal decision-making process. Thus, the importance of the other variables decreases if variables from the international environment are extremely important.

However, this is not always the case. The international situation is not always as extreme and clear case as in the "house-on-fire" example. For instance, the foreign policy issue could be 'preventing fire' rather than "reacting to the fire". If the former is the case, with a state selecting prevention measures, policy outcomes could depend upon the internal decision-making process. Thus, there is a possibility that domestic actors' preferences and beliefs would impact on which specific measure is chosen. It is rare that the behaviour options for a certain situation are always reduced to one.

#### **1.4.ii Domestic level approaches**

Since all states do not behave similarly in similar situations, the state may be the appropriate level of analysis. The variation in decision-making processes may be accounted for by variations in the social and economic structures and in the domestic actors of the state. This level of analysis as well as the individual level of analysis emerged in order to overcome the shortcomings of the realist approach. In this view, scholars pay more attention to the

influence of domestic factors by revealing and analysing the areas inside the black box neglected by realism (Light 1994: 95-6). This approach is based on the assumption that the state is not a unitary structure in foreign policy-making. Contrary to the realist assumption, scholars of this approach acknowledge that there exist many foreign policy-making processes, resulting in different policy choices. These vary according to the nature of the political system in a given country, according to the intensity of the situation, according to the policy issues, and according to the domestic actors that become involved.

One of the domestic variables that affect the foreign policy process is the type of political system. Rosenau (1966) distinguished between “open” (democratic) and “closed” (authoritarian) systems. His work in foreign policy-making has been followed by others. Hermann and Hermann (1989), for instance, classified governments according to who can participate and how much they can participate in the foreign policy-making process.<sup>8</sup> For instance, in some countries, such as the US, political participation is supposed to be extensive. In other countries, participation can be limited to an elite based on political parties, bureaucracies or other factors. In discussing the foreign policy process, Hermann and Margaret Hermann (1989), argue that in democracies, as compared to authoritarian systems, more decisions, on a wider variety of issues, will be affected by more domestic actors. This pluralistic range of domestic actors in a democratic country also means that the process of interaction between these actors is quite natural; at the same time, producing a policy outcome is likely to be more difficult and to lead to more conflict and gridlock than in authoritarian countries. Hence, in chapter 4, the impact of South Korea’s democratisation, from the late 1980s, on foreign policy-making process and its choice for business-track diplomacy towards North Korea will be examined.

If states of the same type behave in the same way, then changes in other factors, such as a state’s leadership, will not produce significant changes in foreign policy, and FPA is not

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<sup>8</sup> The types of governments identified by them are: authoritarian (few can participate, and there are minimal rights to oppose); competitive elite (few can participate, but they have extensive rights to oppose and compete); democratic (many can participate, with extensive rights to oppose and compete); and limited democratic (many can participate, but only with limited rights to oppose or compete)

required to investigate the beliefs and perceptions of individual decision-makers. However, there is no guarantee that states with the same type of political system behave the same way in similar situations. For instance, according to the nature of the issue area and the situation, even in the same political system, different actors may operate in different decision-making processes. Rourke (1991: 122-3) argues that while a mix of foreign and domestic policy issues such as foreign trade or the sale of weapons, are likely to be open to increased and effective participation by more domestic actors, 'pure' foreign policy issues, such as a government's participation in a civil war, are likely to be decided among political leaders.

Another domestic approach is focused on interplay among specific domestic actors. As noted earlier, the domestic approaches see the state not as a unitary actor in FPA. Bureaucracies, the media, the political opposition, interest groups and other sub-national actors, all have an influence on the state, and they are potential domestic variables for foreign policy outcomes. Furthermore, the more democratic a state is, the more likely it is to have active domestic actors, and thus the more influence they may have in the foreign policy-making process. Various approaches have been developed to show the impact of domestic actors on foreign policy-making. The bureaucratic politics approach, the iron-triangles approach, and the military-industrial complex approach can be included as domestic level approaches of FPA.<sup>9</sup>

This thesis shows that some domestic actors, such as the political opposition and the public opinion, can influence the foreign policy making. Those actors might be important domestic factors in South Korea's policy-making towards North Korea. For instance, the political opposition has an impact on foreign policy in democratic political systems; those who are in power face rivals who would could replace them. Oppositions vary; there is a distinction between oppositions who merely want to change policy and those who want to gain control of the government. A second distinction is between those who are located inside

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(Hermann and Hermann 1989).

<sup>9</sup> For the bureaucracies' influence on a state's behaviour, see Allison's work on Cuban missile crisis (1971). For the impact of close relationship between the military and military industries corporations on defence policies, see (Rosen 1973).

and those who are located outside the government (Rourke 1991: 128-9). An example of opposition is organised political parties. In any form, opposition parties serve as sources of criticism and thus constraints to the government's policy-making. However, opposition and criticism can emerge from any part of a state, such as the media, interest groups and other domestic actors. These oppositions, whatever their reasons, could influence public opinion and in turn foreign policy-making.

Another set of domestic actors which can influence foreign policy-making are the general public. To discuss the role of the public requires a look at the influence of public opinion on foreign policy. For instance, one study shows that the constant public protest over the war was a factor in ending the U.S. involvement in Vietnam (Small 1988). In fact, because many of those who make foreign policy are essentially elected politicians, they pay attention to public opinion. Thus, opinion polling and public protests are likely to increase the public's impact on the decision-makers' mind. For instance, although some may argue that elections are not normally won and lost over foreign policy, this can be very much an issue, and can be part of the general electoral equation. It seems that the South Korean Kim Young-sam government's inconsistent North Korean policies clearly reflect the impact of the public opinion on his policy choices, and his concern over the impact of this issue on the general election, which will be discussed in chapter 3.

However, the influence of domestic actors on foreign policy is complex and difficult to measure. Both the role of opposition and the public differ greatly across political systems, issues, and decision-makers. In fact, there is no system in which the opposition or the public consistently controls policies. Certainly there is no simple connection between domestic actors and foreign policy. For instance, because decision-makers or politicians have legal and instrumental advantages, such as information, the capacity to shape public opinion through the media, and influence over the other domestic actors, the role of domestic actors on foreign policy-making can vary according to other circumstances, including the style of the decision-makers.

### 1.5 Defining the beliefs approach

The previous sections reviewed some of the international and domestic variables used by foreign policy approaches developed in IR and FPA. As the above discussion shows, despite the advantages of these approaches, it is often impossible to explain crucial decisions and policies without reference to the traits of the high-level decision-makers involved in the foreign policy-making process. In fact, both international and domestic approaches sometimes cannot immediately provide reasons for why and when policy changes occur because they neglect the importance of the decision-makers. Thus, this section will take up the analysis of decision-makers as a crucial factor in foreign policy-making.

Before moving to the impact of beliefs held by decision-makers on foreign policy outcomes, several other approaches should be distinguished in order to clarify the approach to beliefs taken in this thesis. One is the human nature approach that examines the fundamental human characteristics that affect foreign policy-making. The humankind approaches can be divided into biological and psychological categories. Biological researchers are concerned with the relation between the humans' physical and political nature. For classical Realist thinkers, such as Morgenthau (1993: 4), "politics, like society in general, is governed by objective laws that have their roots in human nature". Political realists also seem to share the assumption of ethnologists, which argue that animal, including human, behaviour is to at least some degree based on aggressive genetic characteristics.<sup>10</sup>

The other approach is concerned with human's psychological factors. This approach can be used to explain human behaviour in world affairs as well as social life. Here the focus is on the common psychological traits of humans, not the psychological make-up of individuals, which will be discussed later. It mainly concerns aggression and violence as a reaction to felt discrepancies between preferred and actual states of affairs. A number of conflict resolution theorists suggested this as a cause of violent behaviour. Johan Galtung's

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<sup>10</sup> For instance, although Lorenz (1967) believed that the aggressive behaviour of human tends not to be lethal and to have survival value, he also believed that aggression was innate to human as well as other species.



‘structural violence,’<sup>11</sup> Ted Gurr’s ‘relative deprivation’ and John Burton’s ‘human need theory’ all contributed to this type of approach (Sandole and Merwe 1993).

The other type of decision-maker approaches focuses on possible psychological factors which have impacted on decision-makers’ policy-choice and vary from analyst to analyst.<sup>12</sup> It could be decision-makers’ mental and physical health, personal experience, education, or lessons from history. Although these personal factors might help shape their beliefs or help consolidate their pre-existing beliefs, this study is not concerned with the physical and psychological factors that contribute to the decision-makers’ impact on foreign policy, but with the role of beliefs held by high-level decision-makers on foreign policy-making.

Put differently, a country’s foreign policy might be different even when the international and domestic environments are similar if beliefs held by decision-makers are different. It is the importance of decision-makers’ beliefs that this thesis is arguing for, through an analysis of South Korean President Kim Dae-jung’s beliefs relating to business-track diplomacy towards North Korea in the service of security objectives and their impact on South Korea’s policy-making.

### **1.5.i Basic assumptions of the beliefs approach**

The previous discussion introduced human nature considerations that impact on foreign policy-making. The following analysis focuses on humans-as-individuals and emphasises the characteristics of political leaders. It makes the assumption that individuals make foreign policy decisions, and that different individuals can make different decisions even in the same external and internal environment because they differ in their beliefs. Advocates of this type

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<sup>11</sup>For instance, ‘structural violence’, which is defined as a structurally based discrepancy between actual and potential states of physical and mental well-being created through the system of differential and unequal access to the means for closing gap between the actual and the potential, could be the source of violence by those who have been suffering or are about to suffer from it (quoted in Sandole and Merwe 1993: 11-4).

<sup>12</sup> According to Riccards (1977: 226), decision-makers’ health can be an important factor in decision-making. He argues that the physical health of US President Franklin Roosevelt may have affected Soviet-American relations. By the time of the Yalta Conference in 1945, only two months before his

of approaches are primarily interested in the psychohistory of individual leaders (George 1969; Holsti 1962, 1995; Smith 1988). Therefore, the question is not what these persons decided. Rather, the question is why they made certain foreign policy choices.

In contrast to the international and domestic approaches discussed above, the beliefs approach acknowledges that understanding foreign policy decisions requires a focus on the individual or decision makers' beliefs towards the surrounding environments. Some argue for the necessity of this level of approach in FPA. For instance, it is suggested that "state's interest are not defined solely by the international system, much less by its structure alone, but they are also likely to reflect elements within the domestic political arena . . . One must indeed take these internal process into account, with special attention directed at decision makers and their definition of situation"(Holsti 1995: 47). Also, Rosenau (1990: 25) points out that "most approaches in FPA tend to underestimate or ignore the importance of the micro level, such as decision-makers or political leaders, and thus most theories have not gone micro enough. The micro-level in systemic approaches is usually identified with nation-states vis-à-vis the international environment and the macro-level factor". Even in the context of the international-domestic linkages approaches, some domestic factors, such as interest groups and the foreign policy-making community, have occasionally been treated as micro-level units, but these approaches do not go deeper than that. Thus, individual beliefs approaches assume that there is a need to go beyond the argument that both international and domestic elements are important.

There are several assumptions made in this approach. The first is that, as described earlier, foreign policy is made and implemented by humans; it does not see states as monolithic, impersonal creatures that somehow behave on their own. The second assumption is that different decision-makers generate different foreign policy-decisions even in the same international and domestic environments, such as diplomatic relations, governmental structure, or processes of policy making. The third assumption is related to the first two.

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death, he was very seriously ill and unable to deal effectively with the complex diplomatic issues discussed. Two months later Roosevelt was dead.

Given that foreign policy is made by humans and that decision-makers can have an impact on foreign policy outcomes, this approach also assumes that how these decision-makers see the world and what they believe is an important object of study.

With these basic assumptions of the beliefs approach to FPA in mind, this study now presents the analytical frameworks which will be used to examine the impact of the belief system held by President Kim Dae-jung on South Korea's policy-making with regard to post-Cold War North Korean security problems in chapter 5. It begins by distinguishing three types of impact of beliefs on foreign policy outcomes: road maps, information screening, and institutionalisation. It then looks at the shortcomings of the beliefs approach, its methodological challenges, and the strategies used to cope with these concerns. These tasks will be accomplished by reviewing the literature on the beliefs approach.

### **1.5.ii Three types of impact of beliefs on foreign policy**

One of the core subjects of this study is the causal relation between beliefs and foreign policy output. The central question is whether the beliefs held by decision-makers have real impacts on foreign policy decisions, and if so, how they impact on foreign policy-making. Beliefs might be evident in any foreign policy-making analysis as a possible factor in a certain policy outcome. These can be present in the form of ideology, social norms, perceptions or historical lessons. However, this does not mean that some beliefs always explain choices by policy-makers.

The rational-model might suggest that choices for specific beliefs simply reflect the rationally selected interest in a given set of external and internal conditions. Beliefs can be just political propaganda to legitimise and popularise actors' interests.<sup>13</sup> In order to argue that the beliefs themselves do play a causal role in policy decision, it is necessary to elucidate the

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<sup>13</sup> There has been a strong tendency in the IR field to use the model of self-interested actors. This model assumes that actors could correctly anticipate the results of their actions and maximise their interests, subject to constraints, and thus the actor's preferences and causal beliefs are naturally selected and given. In this rational model, policy analysis tends to focus on the international and domestic constraints faced by actors (Goldstein and Keohane 1993: 4-7).

'causal pathways' (Goldstein and Keohane 1993: 11-3) through which beliefs have the potential to influence foreign policy output. This thesis introduces three types of causal pathways for beliefs: their role as road maps, in information screening, and as decision-making rules.

#### **1.5.ii.a Beliefs as road-maps**

Beliefs impact on foreign policy outcomes when they serve as "road maps" for decision-makers. Goldstein and Keohane (1993), for instance, concerned with the role of ideas in foreign policy-making, define ideas as shared beliefs. This means that the ideas and beliefs are interchangeable concepts. Also, they distinguish three types of beliefs: world views, principled beliefs and causal beliefs, and describe the meaning and the impacts of each three beliefs on foreign policy. Out of these types of beliefs, the concept of 'causal beliefs' is the main point of this discussion. They define the 'causal beliefs' as:

[b]eliefs about cause-effect relationships which derive authority from the shared consensus of recognised elites . . . Such causal beliefs provide guides for individuals on how to achieve their objectives. Scientific knowledge may reveal how to slow down the green house effect in the earth's atmosphere . . . Causal beliefs imply strategies for the attainment of goals, themselves valued because of shared principled beliefs (Goldstein and Keohane 1993: 10).

The core feature of this belief approach is that even if actors' preferred outcomes or goals are clear and given, as rationalist analysts assume, causal beliefs are still important in foreign policy-making because there might be a case where actors do not know with certainty the consequences of their actions. Under conditions of uncertainty that might be caused by incomplete information, actors' expectations depend on causal beliefs. These beliefs help to select which of various means will be used to reach their objectives. Goldstein and Keohane (1993: 16) define the role of 'road maps' as:

[w]hen we view politics as an arena in which actors face continual uncertainties about their interests and how to maximise them, the need for ideas to act as road maps becomes apparent. Ideas serve the purpose of guiding behaviour under conditions of uncertainty by stipulating causal patterns or by providing compelling ethical or moral motivations for action. They can stipulate what is right and wrong, provide new social visions, or merely suggest what economic policy will steer a nation toward increased wealth.

Namely, even though they recognise that ‘road maps’ could be mainly instrumental, relating to strategic aspects of beliefs, causal beliefs can be understood within the context of the principled belief and of broader world views. The concept of principled beliefs consists of normative ideas that specify standards for distinguishing right from wrong. Thus, the beliefs as road maps could encompass the moral consideration present within shared principled beliefs.

In sum, the main premise of this thesis is that beliefs can be persuasive ideas by acting like road maps in determining the means to use in uncertain situations in order to reach certain goals. In chapter 5, President Kim Dae-jung’s “sunshine policy” towards North Korea will be discussed as Kim Dae-jung government’s ‘road map’ to achieve South Korea’s security objectives, such as decreasing inter-Korean tensions and achieving peaceful Korean reunification.

#### **1.5.ii.b Beliefs as information screens**

In the second pathway, beliefs held by decision-makers are used to screen information in certain situations. Images, belief systems, operation codes belong to this category. This approach builds on the tradition of ‘behaviourism’, which focused on observable and measurable components of behaviour rather than unobservable assumptions (Smith 1988: 14). The beliefs literature emerged as an attempt to be specific about the psychological component of individual behaviour, which could be an important factor in FPA, but which had been considered as far less important for the explanation of state behaviour than systemic or state determinants. With this common objective, several approaches were developed which are closely related to the notion of beliefs.

This section introduces briefly three approaches: the images, belief systems, and operational codes. First, the concept of ‘image’ was proposed by Boulding (1956). The core argument is that each individual holds images of the world, and that these images greatly influence how the individual sees incoming information or, as Boulding called them, ‘messages’. Accordingly, information which supports pre-existing images held by the

individuals can be easily accepted, whereas information which contradicts these images is not easily accepted.<sup>14</sup>

The second approach is that of 'belief systems' introduced by Holsti in 1962. In fact, the concept of belief systems is closely related to the concept of 'image' developed by Boulding. However, the difference between Holsti's belief system approach and the image approach is that Holsti focused on empirical investigations, known as 'content analysis'. His work went beyond a conceptual discussion on the nature of beliefs. Rather, it was directed towards the empirical analysis of a leader's belief system and its impact on foreign policy. His case study was the beliefs of US Secretary of State John Foster Dulles. He analysed 3,584 statements made by Dulles between 1953 and 1959. Holsti concluded that Dulles has a fixed view of the Soviet Union, or a 'closed belief system', viewing it as 'inherent bad faith', which significantly affected the way in which Dulles interpreted Soviet behaviour (Holsti 1962).

Third, the concept of the 'operational code', developed by George (1969) is similar to the concepts of image and belief systems that act as a screen through which information is filtered and interpreted. George sees the operational code as a way of explaining an actor's policy decision and thus a country's foreign policy. However, George's approach has methodological differences from the other two. He identified two sets of beliefs an actor has and which define the actor's operational code. First, 'instrumental beliefs' are those concerned with the best way for the actor to achieve his or her goals. Second, 'philosophical beliefs' are related to an actor's norms and world views. Accordingly, he lists a set of questions, the answers to which define an actor's operational code.

There are, obviously, differences between the three approaches in terms of their methodologies. However, these approaches overlap in terms of their assumptions about the nature of the relationship between the beliefs held by individuals and the external behaviour of states; they also share a focus on the relationship between beliefs and information processes. Firstly, what all the beliefs approaches indicate is that the political leaders' images,

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<sup>14</sup> In applying the image concept to international relations, Bronfenbrenner (1961), for example, argued for the existence of a 'mirror image', in which both US and Soviet peoples saw the other as the

belief systems, operational codes influence the information process so as not to alter pre-established beliefs. Decision-makers' beliefs can affect how they see and react to incoming information or an event, indicating that similar information processes are at work in all the approaches. Secondly, this beliefs literature has a common concern that a gap can exist between beliefs and the reality of the operational environment, which causes information distortion. Thus, leader's misperceptions or closed belief systems is recognised as a possible explanatory mechanism in their account of foreign policy decisions.

All these approaches acknowledge that beliefs held by decision-makers influence policy outcome because they are used as 'information screens', and look at the impact of beliefs in the information process. Before a situation exists for the foreign policy decision-maker, there must be information screening.<sup>15</sup> First of all, there has to be an impetus from or a problem in the international environment. Then the process of information screening by which the decision-maker selects, organises, and finally interprets incoming information about the surrounding world must take place. Because information is a vast, ongoing wave of signals and facts, and is sometimes distorted, it is argued that individuals in high-level positions cannot process, handle, and understand all the available information. Decision-makers then must select, organise, and interpret the information directed at them from the international environment.

In this information screening process, some information is simply ignored; some is looked at quickly and then either thrown out or buried either intentionally or unintentionally; some is altered so as to not upset existing beliefs held by the decision-makers; some is simply accepted as the reality. Any kind of beliefs, as discussed above, act as a screen to filter information. Thus, the information screening process greatly depends upon the specific beliefs that already exist in the mind of the individual decision-makers. Put differently, a person's beliefs towards the world help determine what is selected and attended to, consequently making some things look more important and others less so. Thus, pre-existing

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aggressor and used this as a justification for pursuing a confrontational policy in the Cold War period.  
<sup>15</sup> The word 'screening' is used interchangeably with 'a set of lenses' or 'filtering' (Holsti 1962).

beliefs ultimately affect how people make decisions through information screening processes. These decisions may then be implemented in some form or other as foreign policy.

This beliefs literature identifies various information screening mechanisms or psychological factors that affect how decision-makers select and interpret the incoming information on the basis of pre-existing beliefs. First, people try to achieve 'cognitive consistency': they want the beliefs they hold not to contradict each other. Individuals strive to ensure that their beliefs are consistent. When they are not balanced, the individual experiences dissonance and will then carry out certain measures to reduce the dissonance (Festinger 1964).<sup>16</sup> When new information contradicts established images, people tend to simply ignore or reshape the new disturbing information rather than change their images or beliefs.

Second, 'historical learning' is another mechanism that helps to shape information processing. Decision-makers often apply the lesson of world history to current situations. The "lesson of Munich" is an example of this, which has done much to affect the actions of Western leaders since World War II. The British, in an attempt at appeasement, allowed Hitler to annex part of Czechoslovakia. This became an obvious failure as Germany attack the rest of Czechoslovakia, and finally most of Europe. Thus, the lesson drawn by western leaders was that you do not compromise with aggressors. For example, when US President Truman was faced with the North's invasion of South Korea, he sought to avoid the 'Munich syndrome' by deciding for war.<sup>17</sup> Decision-makers often use historical analogies for events and people in order to simplify and organise memories and perceptions. However, this also leads to selective perception: noticing those details of a present event that look like a past one, while ignoring the important differences.

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<sup>16</sup> Festinger's concept of cognitive dissonance (1964), which is about the discordant relationship between preferred and actual states of affairs or between our beliefs and values and the environment as it actually is, is also used to explain violence as a reaction to avoid or reduce further dissonance-provoking situations.

<sup>17</sup> Truman said "in my generation this was not the first occasion when the strong attacked the weak. I recalled some earlier instances: Manchuria, Ethiopia, Austria. I remembered how each time that the democracies failed to act it had encouraged the aggressors to keep going ahead . . . If this was allowed to go unchallenged it would mean a third world war, just as similar incidents had brought on a second world war" (quoted in May 1973: 32).



The third mechanism is ‘wishful thinking’, the influence of fears and desires on images. It is motivated by perceptions. In order not to clash with existing beliefs and hopes, decision-makers tend to select and interpret incoming information based on their hopes. In order to achieve desired objectives, decision-makers may be motivated to underestimate information which weights against their hopes. As discussed earlier, these approaches are all linked to the work on false perceptions, caused by rigid pre-existing beliefs which result in distorted interpretations.

The above discussion indicates that misperceptions lead to poor foreign policy decisions. However, this thesis is not concerned with distinguishing between the closed and open beliefs of decision-makers; the former will be more likely to result in inaccurate perceptions of the operational environment. The main premise is that beliefs do matter in information processing. Put differently, once certain beliefs are selected, this pathway limits choice because it logically excludes other interpretations of reality and sustains its direction, as will be discussed in chapter 5.

### **1.5.ii.c Beliefs as decision-making rules**

The third pathway is the impact of certain beliefs on the foreign policy-making structure. If decision-makers share certain beliefs, they are likely to involve certain foreign policy issues with regard to the beliefs. Especially, because South Korean case is referred to belief held by South Korean president Kim Dae-jung, this is more likely. According to Kohl’s (1976) ‘Royal-Court Model’ of the foreign policy-making process, foreign policy making can be highly centralised, and dominated by the President and/ or their key advisors if he/she wishes to take charge. This model could be viable, but it depends on decision-makers’ beliefs, interests, or operating style. In contrast to the bureaucratic model of foreign policy-making, elites recruited for the ‘presidential court’ are chosen because they share President’s basic ideas and world view (Kohl 1976: 3).

More extensive types of impact of beliefs on foreign policy-making are through institutionalisation; institutionalised beliefs have a lasting influence on politics through their

incorporation into the terms of the domestic political debate, that is, they became norms or institutions. The institutionalised norms can be defined as “standards of appropriate behaviour of actors with a given identity or stable collections of appropriate practice and rules for specific actors in certain situation” (Finnemore and Sikkink 1998: 891-2). Goldstein and Keohane (1993: 21-3) also argue that once beliefs have influenced the organisational set-up, their influence will persist in the organisation through the people working in the organisation. Although the initial interests which cause institutionalisation can fade away, if beliefs are institutionalised, the impact of beliefs may be prolonged. In other words, beliefs which became embedded in domestic politics and are regarded as the order or culture of appropriate action, have an impact on related external issues and thus foreign policy outcomes. Blum (1993), for instance, argues that despite numerous deficiencies in Soviet foreign policy during the Cold-war period, which could be traced to the basic assumptions and values of socialist society, the stability of these core beliefs placed limits on the kind of options available to policy-makers. Beliefs also affect domestic politics by influencing the coalition building process: coalitions that espouse platforms compatible with the requirements of dominant beliefs have powerful advantages over those who do not.

As will be discussed in chapter 4 and 5, this study looks at the impact of beliefs not only on the governmental decision-making centred on President Kim Dae-jung but also on the implications of ‘norm dynamics’ for South Korea’s active engagement with North Korea in the South Korean domestic policy debates in the 1990s.

### **1.5.iii Shortcomings and methodological concerns of the beliefs approach**

There are several concerns raised by the analysis of the beliefs literature, and by the approach taken in this thesis. These concerns will be examined in order to conduct a clear analysis of the relation between South Korean foreign policy and the beliefs approach. The first concern of this research is the actors’ sincerity. Smith (1988: 28), for instance, “questions whether we can believe the reasons policy-makers give for their decision”. The central worry is that they may be presenting a post-hoc justification for their decisions or they may be saying things to

popularise their choices. To overcome this methodological difficulty requires an objective interpretation of information with regards to the beliefs of decision-makers in order to examine whether they can truly justify their claims. Goldstein and Keohane (1993: 27) call for “the observer to engage in the interpretation of meaning through empathetic understanding and pattern of recognition, made possible by a shared language and shared tradition”. Thus, this thesis looks at all the information related to President Kim Dae-jung’s personal views and beliefs on North Korean security problems. An evaluation will be made concerning both the quantity and the quality of information to reveal whether there is a consistent pattern to his beliefs concerning North Korean security problem both before and after he became the South Korean President.

However, this would not reveal whether there is a causal relation between beliefs and certain policy choices made by decision-makers. Put differently, although actors have beliefs that might be relevant to policy choices, these may not be the decisive reason for that choice. They may use beliefs as political propaganda to boost public support, hiding the real reasons for certain policy choices. Thus, there remains the problem of constructing a causal link between beliefs and policy choices. This work is not an easy task because it is difficult both to obtain material about decision-makers in countries where information is restricted, and to access worthy information which indicates the real intentions and perceptions of decision-makers when new foreign policy issues arise. Because the impact of Kim Dae-jung’s beliefs on South Korean policy choice is a current event, this thesis will face these difficulties. Thus, this thesis is dependent upon “causal inference, which requires the check of spurious correlation by asking about external and internal constraints that may affect the policy choice” (Goldstein and Keohane: 29). As pointed out earlier, if different actors with different beliefs would have selected the same policy direction, the claim that beliefs are important factors in policy choice would not be persuasive, although the beliefs held by decision-makers actually play an important role on a policy outcome. For instance, it is possible that although Keynesian ideology played an important role in the establishment of liberal institutions in the West after World War II, the notion of hegemony, in which the political and economic power of the

United States after World War II led to the spread of both capitalist ideas and liberal institutions in the West, could alone explain all these results. Thus, causal relations between capitalist ideas and liberal institutions would not be persuasive (Ikenberry 1993).

This methodological problem also applies to the case of South Korean policy towards North Korea. As pointed out earlier, this thesis argues that there has been a policy change under the Kim Dae-jung government, and his beliefs are an important factor for policy change. However, this only satisfies the basic condition of the impact of beliefs on policy choice, by showing the different policy choices of different leaders. Also, if the thesis shows that President Kim Dae-jung has consistent beliefs regarding this policy area, it satisfies the secondary conditions. However, the surrounding internal and external environments when he became president were not the same as during the previous governments, meaning that these environmental changes, and not the beliefs held by Kim Dae-jung, could account for the policy change. Therefore, this thesis requires detailed investigation of internal and external environments both in the previous and the Kim Dae-jung governments.

The second concern is with the way in which beliefs impact on foreign policy-making. Many cognitive psychology approaches that discuss information screening have focused on the implication of the cognitive psychology of certain individuals for their interpretation of reality and for information processing in regard to a certain event. These arguments, such as the notions of misperception, closed belief system or, mirror-image, which result in poor foreign policy-making, are central to much of the work on conventional beliefs approaches in FPA. However, given the difficulty in measuring the extent of openness or closeness of a belief (Smith 1988: 28), this thesis will not seek to show whether Kim Dae-jung's beliefs are closed or open. Moreover, since much information about the inter-Korean security issue is new and still the subject of debate, this thesis cannot conceptualise the open and closed dimension of these beliefs in the current dynamic environment in the Korean Peninsula. Therefore, this thesis does not seek to analyse the right or wrong dimension of his foreign policy change. Its only concern in terms of conventional cognitive psychological

approaches is that beliefs held by key decision-makers certainly influence the nature of the information screening process, and thus policy-making.

## **1.6 Methodological framework on South Korean policy-making towards North Korea:**

### **International system approach towards a synthetic approach**

The main purpose of this section is to discuss how to apply the above foreign policy approaches to the analysis of the South Korean policy-making process in regard to its policy-making will to adopt a business-track diplomacy in the 1990s, especially under the Kim Dae-jung government. So far, we have reviewed three approaches to foreign policy analysis: the international systems approach, the domestic level approach, and the beliefs approach. As we have seen, each approach has its advantages and disadvantages in explaining state foreign policy-making and changes to these policies.

The international system approach has provided the most persuasive explanation of South Korea's security policy towards North Korea in the Cold War period. In an approach that saw the state as rational actor, North Korea was the enemy, and it was felt that its threat should be deterred by military power; security policy was centred on a military alliance with US. Thus, there was little need to look at other domestic variables to explain South Korea's security behaviour in the Cold War era. Consequently, the South Korean FPA field has remained limited to international structural explanations. Ha Young-sun (1988: 3-4) explained the reasons for this trend as follows. First, because of South Korea's weak position compared to the surrounding big powers on the Korean Peninsula, such as the US, the Soviet Union, China and Japan, the room for autonomous foreign policy was greatly limited. Thus, the study of alternative models for South Korean foreign policy analysis has also been neglected.

Second, the limited autonomy of South Korean foreign policy was deepened by two international factors: the Cold War, and the separation between South and North Korea. Faced with a stark international environment of military threats and tensions during the Cold War period, South Korea's foreign policy, especially in the security field, has been significantly dependent upon the policy direction of the strong military power of US. Most scholars agree

that this was because South Korea's security interests generally coincided with those of the US in the Cold War period. Thus, in terms of South Korea's FPA, domestic political factors have not been regarded as having a decisive impact on security policy outcomes.

Third, the underdevelopment of the South Korean security policy field has been compounded by its military based, authoritarian, power structure. Because authoritarian regimes strongly limit access to and distribution of information on the security policy making process, this limits the efforts to investigate the inside of the policy-making process, which would provide important evidence for the domestic and individual levels of foreign policy analysis.

Thus, this thesis assumes that even after the end of the Cold War, the importance of the policies of powerful states, such as the US and Japan, towards the Korean Peninsula continues because there is still undeniable political and military confrontation surrounding the Korean Peninsula. Thus, the international system approach will be used in chapter 4 to explore possible external variables that had an impact on North Korean policy under the Kim Dae-jung government.

However, the changes in the external and internal environments with regard to South Korea in the 1990s present a great opportunity to develop domestic and beliefs approaches, and to increase the scope of FPA research. First, the end of the Cold War era, South Korea's rapid economic growth and greater international recognition, might increase South Korea's ability to pursue more independent foreign policy. The collapse of the Cold War system meant that South Korea became free in some degree from international restrictions. Also, South Korea's growing status in the international economy and membership of international organisations<sup>18</sup> greatly extended the sphere and range of South Korean FPA. These developments mean that South Korea's foreign policy options can be extended compared with those of the Cold War period.

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<sup>18</sup> According to World Trade Organisation (WTO) data (1998), South Korea is ranked 12<sup>th</sup> in the world in total export volume, with US\$136.6 billion, and ranked 11<sup>th</sup> in total import volume, with US\$144.6 billion. Also, South Korea joined the United Nations (UN), Asia-Pacific Economic Cooperation (APEC), Organisation for Economic Cooperation and Development (OECD), and World Trade

Second, South Korea's democratisation from the late 1980s onward might contribute to the spread of democratic norms in the society and increase civilian demands to participate in foreign policy-making. That means an increase in domestic actors' participation in the policy-making process. The foreign policy-making structure in South Korea might become pluralistic with various groups exercising different degrees of influence at the domestic level according to the particular issue addressed.

Third, along with the development of domestic democratisation, access to diplomatic documents and information has become relatively easier, which contributes to deeper research on South Korean FPA. For instance, the Ministry of Foreign Affairs and Trade (MOFAT) enacted the law on the Preservation and Publicity of Diplomatic Documents and institutionalised the opening of past diplomatic documents to the public in January 1994. From January 1998, according to the law for the Information Opening to the Public of Government Institutions, the sphere of information has been extended. Moreover, most of South Korea's government departments, including the MOFAT, the Ministry of National Defence (MND), and the Ministry of Unification (MOU), have been publishing 'White Papers', which record their goals and activities for every year since 1990. Most importantly, increasing press freedom might contribute to detailed analysis of the policy-making process.

Fourth, despite the increasing importance of various domestic actors in the foreign policy-making process, the role of the President may be re-examined. Henderson (1968) described a generation ago the salient features of Korean politics as the "politics of the vortex", and Korean politics had been dominated by the party in power and its leader in particular. His observations still describe fairly accurately the last fifty years and even the present situation. This is because parties in Korea have no coherent policy platform, and no consistent of leadership beyond those in control at the moment.

Lim Seong-ho (1998: 523) also points to the continued domination of the presidency in South Korean decision-making especially in domestic issues, arguing that the conventional feature of imperial presidency and of peripheral National Assembly in the policy-making

process is growing in spite of South Korea's gradual democratisation in the constitutional and electoral dimensions. Scholars provide some of the factors that may influence this type of policy-making process in South Korea. Popular explanations point to socio-cultural reasons, such as the impact of single nationality, Confucianism, a military culture and a strong presidency in the Cold-War period (Kang Ryang 1994: 182). Whatever the reasons are, most scholars agree that South Korea has a top-down policy-making process centred on the president. Of course, this is not necessarily to say that other domestic actors are not important in South Korean policy-making. However, as pointed out earlier, if the president has political and policy-making will on a certain issue, there can be a very top-down policy-making process, centred on president. In this thesis, it is assumed that decisions about South Korea's foreign policy can be made at the pinnacle of the government hierarchy by the president and his staff, who are relatively free from organisational constraints. Thus, beliefs held by the president can be important in the policy-making process in South Korea.

As pointed out in the Introduction, this study argues that a beliefs approach makes a contribution to the field of foreign policy analysis for South Korea, which, in its current state has been criticised by South Korean scholars themselves as no more than the description of modern diplomatic history or analyses of big powers' policy towards Korean Peninsula (Koo Young-rok 1995: 7). In fact, although there are numerous journals for specific Korean issues and questions, there is little South Korean foreign policy research that is based on general conceptions or theoretical frameworks. Lacking theoretical sophistication, the study of South Korean foreign policy has concentrated on descriptions of South Korean foreign policy during specific periods and issues or on analysis of surrounding big powers' policy towards South Korea or vice-versa. Conventional analysis of South Korean foreign policy focuses on description of South Korea's policy choice as determined by the international structure.

However, innovative, this study should be based on objective policy analysis. Thus, this thesis has to look at the international and domestic levels as well. As pointed out earlier, this is, firstly, because each of these approaches in isolation produces only a partial analysis. Second, without comparing other possible variables for foreign policy outcome, the role of



beliefs alone cannot be shown to be the crucial factor, and would not be persuasive. Thereby, in order to prove the importance of the policy-makers' beliefs on South Korean foreign policy-making, a synthetic approach has to be employed.

## **Conclusion**

The examination of the global security debate has revealed that in the post-Cold War era there exist increasing concerns about the utility of military power as the main instrument for preventing conflict and ensuring security. Faced with the rise of a range of intrastate conflicts and non-military-generated insecurity, policy-makers have considered economic engagement and comprehensive security policies to security. South Korean policy-makers also became increasingly aware of the need for comprehensive engagement approaches to deal with the post-Cold War North Korean security problems and with the future Korean unification.

The existing literature on the relationships between economic interdependence and national security indicates that there are certain positive aspects to the role of economic interdependence in international affairs. Economic engagement enhances common economic and cultural interests, establishes multiple channels between states, and provides for the establishment of norms regarding the measured use of military force and a preference for nonviolent means to resolve disputes. As a state's long-term economic interdependence strategy to address a target state's security problems, this chapter has introduced the concept of 'business-track diplomacy' that will be used to examine the viability of economic engagement as a security strategy for a state in the post-Cold War period. The model suggests that, to use this type of policy, it is necessary for both public and private sectors to have both policy capability and policy-making will. In terms of policy capability, economic resources in both the private and the public sectors are needed to perform business-track diplomacy. Moreover, a target state's economic vulnerability is an important factor for increasing the potential usefulness of this strategy. The other requirement of business-track diplomacy is policy-making will, which is the main focus of this thesis. This is needed to mobilise

economic instruments to remove the sources of conflict among states by engaging economically and building interdependent links.

This then brings the discussion to the case of inter-Korean security relations, and especially to the importance of South Korean policy-making will to adopt business-track diplomacy towards North Korea in order to resolve the post-Cold War North Korean security problems. This study hypothesised that there have been security policy changes in South Korea under the Kim Dae-jung government towards the consistent use of business-track diplomacy as means to address the North Korean security problem in the post-Cold War period.

In order to explain this policy change towards business-track diplomacy, the study assumes that the beliefs held by Kim Dae-jung are the most crucial factor in this policy outcome, though international and domestic variables are still important. By adopting this assumption, this thesis attempts to escape from the restrictive international structure paradigm that dominates the study of South Korean foreign policy-making, and especially the study of the North Korea related security issue, and to show the importance of the role of beliefs held by decision-makers in the foreign policy-making process.

However, in order to conduct an objective foreign policy-making analysis, a comprehensive examination of the state policy-making process is required. Thus, both international and domestic approaches will be employed, along with the beliefs approaches. Before moving on to examine South Korea's policy-making towards North Korea in the 1990s, it is first necessary to demonstrate South Korea's need of business-track diplomacy towards North Korea. Thus, the next chapter will look at the changing nature of the post-Cold War overall insecurity of North Korea, which makes it suitable to be approached through an economic engagement policy.

## **Chapter 2. Conceptualising the North Korean security problems in the 1990s**

This chapter introduces the case of inter-Korean security relations in order to investigate the opportunities for South Korea to utilise business-track diplomacy in the post-Cold War period. The aim of this chapter is to prove the changes in the nature of the North Korean security problem, and thus the need for a shift from military power-dominated approaches to a comprehensive security strategy, which includes economic engagement, to alleviate the post-Cold War North Korean security problems.

The overview of the international politics surrounding the Korean Peninsula during the Cold War era acknowledges the crucial impact of great powers involvement in inter-Korean conflicts, as well as the containment approach, which was applied in the form of a military balance of power, and through alliance politics. Moreover, the analysis of security situations on the Korean Peninsula, such as the North Korean nuclear case, demonstrates that, even after the end of the Cold War, the Korean Peninsula still possesses the potential for great power and inter-Korean conflict. Hence, all actors have continued to protect their interests through the use of military power and diplomatic manoeuvring. In other words, all sides have regarded North Korea's seemingly unchanged security threat in the post-Cold War era as one that should be dealt with through traditional containment strategy.

However, while states have pursued a military and economic containment approach in response to North Korean security problems, the North Korean nuclear crisis and other military confrontations have revealed the growing limitations of the confrontational approaches as an effective means of addressing these problems. In fact, post-Cold War security problems concerning North Korea can not be conceived of as just traditional military threats. Rather, they should be conceived of as being generated by the total insecurity of the regime, due to its diplomatic isolation and economic failure. This requires a security policy based on the economic engagement approach. This chapter, consequently, argues that the

North Korean security problem is a suitable case for testing South Korea's attempt to use business-track diplomacy in pursuit of security objectives.

## **2.1 Military security policy of the Korean Peninsula during the Cold War era**

### **2.1.i Division of Korea**

The position of Korea after WWII was affected by the new global and regional situation. The defeat of Japan in WWII changed Korea's status from Japanese colony to occupied territory, divided into US and USSR spheres of controls. At the 1945 Yalta Conference, U.S.-Soviet-Chinese trusteeship over Korea was proposed, and a temporary division of the Korean Peninsula into South and North was established. Thus, Korea became divided into two zones of occupation, which became the sites of two antagonistic Korean regimes backed by the two great powers, the US and USSR.

During 1945-1950, the two superpowers established favourable governments in Korea in the service of their strategic interests. For the U.S, the Korean Peninsula was one of the places it wanted to include in its capitalist global order, and specifically to help contain the Soviet Union's communist influence in the world. Its counterpart, the Soviet Union, was also eager to ensure a political environment favourable to its interests on the Korean Peninsula. The Soviets were pleased to find a population strongly influenced by the left in the northern part of Korea. As a result, and in contrast to the U.S. occupation, it encouraged the existing Committee for the Preparation of Korean Independence (CPKI) branches, and this pro-communist organisation continued to function as the basic unit of government.

Thus, the efforts at establishing one Korean government were not successful. The disagreement between the two superpowers on how to form a unified Korean government, as well as ideological differences and rivalries between the Korean political leaders, resulted in the two separate governments in Korean Peninsula. As a result, under US recognition, the Republic of Korea (thereafter South Korea) was inaugurated, and Rhee Syng-man became the first president of South Korea on the 15<sup>th</sup> of August 1948. In the North, the Democratic People's Republic of Korea (thereafter North Korea) was inaugurated on the 9<sup>th</sup> of September

1948, and was promptly recognised by the Soviet Union. At last, Korea was officially divided into two, with each government claiming to be the only legitimate government on the Korean Peninsula. After the division, tensions between the North and South grew. There were several low intensity battles between South and North Korea between 1949 and the outbreak of the Korean War (Landsberg 1998: 87-9).

On June 25, 1950, North Korea invaded South Korea in order to reunify the peninsula. The invasion was contested by a joint force of the US and the United Nations. The three-year long Korean War, which ended on July 27, 1953, was an enormous tragedy. More than 4 million people died; North Korea lost more than 20% of its pre-war population and South Korea had more than 1 million casualties. The Korean War was also a historical turning point not only in international relations but also in inter-Korean relations (Park Kun-young 1999a: 31-2). Globally, it contributed to the United States shift from post-World War II disarmament policies towards containment of Soviet expansion. Regionally, Korea became the front line in the Cold War between the US and Soviet Union. Also, the ideological and political antagonism between the North and the South was intensified. The antipathy that developed between the two opposing regimes encouraged each of them to seek in every possible way to accomplish reunification on its own terms and at the expense of the other.

#### **2.1.ii The security environment of Korean Peninsula in the Cold War period**

The cessation of the Korean War, marked by the signing of an armistice in July 1953, did not produce a peace mechanism for the Korean Peninsula. Rather, the division of the two Koreas along with De-Militarised Zone (DMZ) meant that the Korean Peninsula became the focal point of not only the continuation of super-power competition between the US and USSR but also of intense inter-Korean competition for acquiring strategic superiority and legitimacy against each other.

### **2.1.ii.a International security structure**

The international security environment surrounding the Korean peninsula after the Korean War largely depended upon alliance politics between major powers and the two Koreas along with the Cold War structure in East Asia. The most important characteristic of the East Asian security environment during the Cold War era had been the balance of military power between the 'northern alliance', which was the strategic alliance between North Korea and the Soviets, and also North Korea and China, and the 'southern alliance' which was the alliance between the US and Japan, and also the US and South Korea. Such military alignments were basic means for both Koreas to ensure their national security against each other's threats.

In the northern alliance, the Soviet Union was the core supporter of North Korea. After WWII, the northern part was occupied by the Soviet Union, and actually ruled by the Soviet Union's military government, which played a crucial role in shaping North Korea's political system. The Soviet Union signed an agreement with North Korea in 1955 that provided Pyongyang with financial, technological, and industrial assistance on mostly a free basis. The total amount of Soviet credits and grants, for North Korea's post-war reconstruction during the 1950s, was up to US\$690 million. Also, to confront the emerging military threat from the southern alliance, the Soviets and North Korea committed to uphold the Treaty of Friendship, Cooperation and Mutual Assistance signed in July 1961. Despite strains in Soviet-North Korean relations, especially in 1960s and 1970s, the Soviet Union was a strong security guarantor of North Korea throughout the Cold War period (Kim Ilpyong 1987).<sup>19</sup>

The other ally of North Korea in the northern alliance was the People's Republic of China (thereafter China), established in 1949. China's participation in the Korean War caused

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<sup>19</sup> Even in mid-1980s, an agreement was reached that the Soviet would supply MIG 23 fighters in return for North Korea's permission for Soviet fighter planes to fly over North Korea's airspace and to use North Korean air bases. This build-up of the North Korean Air Force was an attempt to counterbalance the US dispatch of F16 fighter planes to South Korea. Also, joint naval exercises between two countries were conducted and the Soviet navy could use several North Korean ports. In the economic field, the two countries signed a number of economic and technological pacts (Kim Ilpyong 1987: 125).

the two countries' relationship to be called "lips to the teeth." After the Korean War, China provided both manpower and other aid for North Korea's post-war reconstruction. The two countries also signed a treaty of Friendship, Cooperation and Mutual Assistance in 1961, which is similar to the treaty between North Korea and the Soviets signed in 1961.

However, the northern alignment was not always smooth and they experienced difficult periods of in their relationships. Until the late 1950s North Korea maintained close relationships with both the Soviet Union and China. However, as a result of the Sino-Soviet conflict, North Korea began to adopt a policy of equidistance. Especially, the U.S. engagement policy toward China as well as the Soviet Union in the 1970s opened the way for North Korea to adopt a more neutral policy toward its two big supporters.

This stance became North Korea's negotiation tactic to secure economic and military aid from the Soviet Union and China by engaging in a dangerous game of trading one off against the other. Moreover, a series of disputes among North Korea, China and the Soviet Union<sup>20</sup> brought about North Korea's rigid adoption of more *chajusong* (independence) in politics, *juche* (self-reliance) in economics, that later proved to be the main internal factor of its diplomatic and economic isolation in the post-Cold War era (Lee Seong-bong 1999).

In order to balance the military power of the 'northern alliance', the triangular relationship between the United States, Japan and South Korea developed as a southern alignment from the 1950s. Following the Korean War of 1950-53, the United States signed the US-South Korea Mutual Defence Treaty with South Korea on the 1<sup>st</sup> of October 1953. During the Cold War era the U.S. government provided not only a security shield but also military and economic assistance to South Korea. The U.S. government has provided some

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<sup>20</sup> For instance, during the Cultural Revolution in China in 1965-69 the Red Guards attacked the North Korean leader, Kim Il-Sung, as the "Khrushchev of Korea" or a "fat revisionist." Meanwhile, in the relation with the Soviet Union, the Soviet suppression of Czechoslovakian resistance and the enunciation of Brezhnev doctrine under which the Soviet Union had the right to invade its brother countries in order to salvage their socialist systems created anxiety for the North Korean leadership. Moreover, the Sino-Soviet armed clash over Quingdo (Damansky in Russian) Island in the Ussuri river near North Korea in 1969 brought tension over border issues between China and the Soviet Union (Park Han 1998: 34-5)

nine to ten billion dollars in security assistance. South Korea has been one of most reliable allies in its policy of containing Soviet expansion in East Asia.

United States has maintained combat troops and support units in South Korea on a continuous basis since 1950. Around sixty thousand U.S troops stayed until 1971 when the US Nixon administration withdrew some forces. Since then there have been usually about forty thousand U.S. military personnel in South Korea until the 1990s, although the numbers fluctuate. Also, South Korea has been the only place in the world where U.S. forces are kept at DEFCON 4 (Defence Readiness Condition Four), one level above normal. In recognition of the fact that the United States was responsible for the defence of South Korea, and to permit greater involvement of the South Korea in war planing, the Combined Forces Command (CFC) was formed in 1978. The CFC, which is the war-fighting headquarters, is the only combined U.S.-allied command outside of North Atlantic Treaty Organisation (NATO). The CFC conducts a major annual war exercise that is known as Team Spirit. The purpose is to practice fighting a war with the North with possible use of nuclear weapons stationed in South Korea. In the mid-1970s it was generally believed that the United States kept over six hundred nuclear weapons in South Korea. Certainly, these weapons were always considered the ultimate deterrence to a North Korean attack (Goose 1987).

Meanwhile South Korean-Japanese relations have been stormy and turbulent at best since Korea was liberated from Japanese colonial rule after WWII. However, the signing of the US-Japan security treaty brought Japan into the sphere of US containment policy. The renewal of the security treaty in 1960 between the two countries, which confirmed Japan's obligation to provide bases for the United States for security objectives in the East Asia, certainly contributed to the protection of South Korea from North Korea's military attack. In the 1960s the increased US burden of military costs in the Vietnam War forced the Japanese to take a more active role in the US containment policy in East Asia. Partly under US pressure, the normalisation treaty between South Korea and Japan was signed in 1965. Under the terms of this treaty the two nations reached agreement on economic cooperation in the form of Japanese government credits, commercial loans, and equity investment in Korea. The



Japanese government agreed to provide US\$300 million in grants, US\$200 million in soft loans and US\$300 million in private commercial credits. In fact, Japan was under great pressure from the United States to share the security burden in East Asia, especially when the United States began to retreat from battle stations after the Vietnam War.

However, the southern alignment was not always smooth in their relationships. For instance, there was a moment of difficulty between the United States and South Korea when the Carter administration announced in 1977 that U.S. troops would be withdrawn from South Korea (President Nixon began the withdrawals in the early 1970s). Moreover, the relationship between South Korea and Japan in the 1970s-80s also had its stormy moments. For examples, Kim Dae-jung, prominent opposition leader at that time, was kidnapped from a hotel in Tokyo by South Korean Intelligence agents in 1973. Also, there was an attempted assassination of President Park Chung-Hee, allegedly by a Korean resident of Japan, a member of the pro-North Korean association in Japan (*Chochongryun*). In the 1980s, there was the controversy over the correct description of Korean colonial history in Japanese school textbooks and disputes over fishing rights and the sovereignty of *Tok-do* Island (*Takeshima* in Japan). However, the South Korean and Japanese governments shared the same security interest - the deterrence of communist military threats - and these tensions were played down to a certain extent (Kim Ilpyong 1987: 130-2).

Throughout the Cold War period the United States played an important role in creating and maintaining the strategic alignment in the Far East region. The United States has been the security shield for Japan and South Korea, as well as their major trading partner. South Korea has depended heavily on the United States for security protection and on Japan for economic assistance and trade partnership. This strategic alliance developed in the context of the cold war and the Korean War, as these new allies sought to counter what they perceived to be the expanding influence of China and the Soviet Union, as well as the North Korean military threat to South Korea.

### **2.1.ii.b Inter-Korean competition during the Cold War**

After the Korean War and during the Cold War, the two Koreas had no significant intention to engage with each other until the late 1980s. Rather, the Korean Peninsula became the place of serious power competition for legitimacy and over the terms of the unification. In fact, during the Cold War, there was no substantial interaction between two Koreas, and thus no progress on Korean reunification, though there were some dialogues and proposals from each side.<sup>21</sup> The two Korean governments were not actively prepared to resolve unification issue at that time. Thus, the fundamental stance of the two Koreas has been based on a philosophy that could be characterised as negotiations according to what they want to pursue. The North has continued to seek immediate political integration measures, discounting the value of intermediate confidence building measures. On the other hand, South Korea preferred non-political and military issues of discussion, and advocates a step by step approach.

However, the stalemate reflected the fact that neither Korean government was seriously interested in improving their relationship and promoting a peaceful unification process between the two Koreas. For instance, South Korean President Rhee Syng-man's 'March North by force' unification principle was an unrealistic and emotional reaction to the North after the Korean War. Also, the Park Chung-hee government's 'construction first, unification later' slogan was based on the idea that until and unless their national economic strength was comparatively stronger than the North, discussion on unification might be useless and even dangerous. In the North, the strategy of reunification by armed force was obvious in North Korea's military attempt to unify the peninsula in the Korean War. After its failure, North Korea switched to an emphasis on peaceful unification. Nevertheless, an

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<sup>21</sup> A vivid example was that, beginning with the Nixon Doctrine, the two Koreas succeed to announce the Joint Statement of 4 July 1972 for pursuing peaceful unification. However, it was not the two Koreas' real intention. For instance, in 1972, At the beginning of direct dialogues between the two Koreas, the South Korean Premier Kim Jong-Pil said that the Joint Statement of 4 July was 'nothing more than a piece of paper'. Also, North Korea had other intentions. According to North Korea's Ambassador to East Germany, Lee Chang Su, who briefed East German leaders on North Korea's strategy in negotiation with the South at that time, "[t]he purpose of the negotiation with South Korea was to concentrate on forcing South Korean leaders into agreement, to free them from U.S. and Japanese influence and to withdraw the US military from the South (Oberdorfer 1998: 25-31).

underlying assumption was that this would materialise only after a revolution among the anti-imperialist South Korean masses.

The continuing difficulty of engaging dialogues between two Koreas was mainly caused by serious distrust against each other. North Korea viewed South Korea's intention to open up an inter-Korean dialogue as a cover up for consolidating the national division. Meanwhile, in the eyes of the South Koreans, North Korea never gave up its ambition of communising the South, while remaining fearful of the South's economic might and military build-up. North Korea was supposedly trying to use dialogue as a means to embody 'united front' tactics, taking advantage of the South (Park Young-ho 1993: 462-3).

Instead, the two Korean governments devoted all their energies to the competition to gain strategic superiority over the other. In the economic field, North Korea started its industrialisation program much earlier than the South did. Thus, with clear superiority in terms of economic well-being until the 1960s, North Korea began to send propagandistic materials by the end of 1950s to the South, claiming that it had created a people's paradise with highly developed welfare programs, with free education for all North Korean children (Hahn 1999: 11). For this reason, North Korea was perceived by South Koreans as having a definite edge over them, and so the South Korean government rejected most of the inter-Korean dialogues and refused to make any proposal for Korean reunification.

However, North Korea was beginning to lose the economic battle with South Korea from the 1970s. This resulted from the combined causes of South Korea's rapid economic development led by Park Chung-hee government from early 1960s and North Korea's several economic failures and constraints such as declining in availability of economic aid, its heavy military spending, and the adoption of *juche* (self-reliance)<sup>22</sup> economy. By the late 1980s, it became evident that South Korea was the clear winner in the economic competition. South Korea's military elite seized power through coups, but used this power to develop its

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<sup>22</sup> The idea of *juche* (self-reliance) propounded by Kim Il-sung in early 1960s was based on the North's need to build up its own independent defence and economic capability because of the continuing Sino-Soviet disputes during the Cold War era. However, the idea became used as a political doctrine to justify and consolidate Kim Il-sung's hold on political power in North Korean politics (Park Han

economy. South Korea's economic adjustment to the world economy in the 1960s to 1980s proved to be highly successful in restoring economic effectiveness and international competitiveness. In contrast, North Korea failed to implement internal reforms that were necessary for successful economic adjustment to new international conditions, instead sticking with an isolated economic policy based on *juche* ideology. North Korea's economic difficulties continued in the 1990s and became important contributing factors towards insecurity in Korean Peninsula.

In the diplomatic field, North Korea was also successful in the early stages in gaining international support from third world countries, mainly due to its post-Korean war economic success, the *juche* (independent) foreign policy caused by the Sino-Soviet split, and the trend towards third world independence and anti-imperialism. However, by the beginning of the 1980s, a different international trend emerged. For example, the Non-Aligned Movement (NAM) declared that the question of Korea would draw a non-partisan response from NAM. Also, North Korea suffered from South Korea's diplomatic gains from their economic engagement with the Third World countries. An international environment of decreasing Third World solidarity, and an increase in economic liberalisation and in interdependence in international economic activities, gave South Korea the opportunity to improve and even surpass North Korea's international standing. Thus, South Korea established diplomatic relations through economic cooperation with various regions, including most of the Eastern Europe socialist countries, and finally the Soviet Union in 1991 and China in 1992 (Gills 1996).

#### **2.1.ii.c The impact of military security on the domestic politics of the two Koreas**

The intense inter-Korean military confrontation and competition during the Cold War impacted on the domestic political culture in both Korean societies. In the South, as a result of General Park Chung-Hee's coup in 1961, military officials and ex-military people either ran the country or had an enormous behind-the-scenes influence in the government and the

private sector. Throughout the 1960s, the military became increasingly well financed and trained. On seizing power in 1961, General Park promptly created the Korean Central Intelligence Agency (KCIA),<sup>23</sup> which built up a systematic of surveillance, and implemented stubborn and extreme anti-communism and anti-North Koreanism as a governing ideology.

Park's regime concentrated on central planning and an export-led development strategy so as to build up the essential power of the nation. To do this, the military quickly and effectively co-opted civilian technical and bureaucratic expertise, and ruled unchecked by parliamentary and judicial power, largely limiting leaving politics uncomplainingly to their military regime. After a narrow victory against Kim Dae-jung in the presidential election of 1971, President Park felt threatened, declared a state of emergency and imposed martial law on the 17<sup>th</sup> of October 1972. After the emergence of the Chun Doo-whan regime in 1980, military-led authoritarian rule continued. The National Security Planning (NSP) distributed guidance to the media. In the 1980s, purges of several hundred leading press personnel greatly reduced the spirit of press independence. Many other laws repressed political activity (Olsen 1999: 202-4).

With the growing power of the military in the South, the policy on North Korea was also dominated by the military authorities, through tight control of information, civilian surveillance, and anti-communism education. The National Security Law forbade activity which in any way supported or appeared to favour anything connected with communism or North Korea. In fact, its provisions are subjected to broad, almost unchecked, interpretation. The Ministry of Unification maintains a Unification Study Institute which works with the Anti-Communist League, and which under the leadership of retired generals provides anti-Communist training. Other programs, such as Hwarang (Knights of Silla, which was an elite military leadership of the 500-700 A.D. era) program led by the Ministry of Education,

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<sup>23</sup> Since 1<sup>st</sup> of January 1981, it was renamed National Security Planning (NSP) under the Chun Doo-whan government and renamed again as National Intelligence Service (NIS) after the Kim Dae-Jung government in 1998.

Armed Forces Spiritual Programs intended to instruct morality and patriotism in the school curriculum at all levels (Henderson 1987: 109-13).

Thus, this anti-communism and anti-North Korea ideology was institutionalised under the military regimes, and became a cornerstone of 'conservatism' in South Korean politics even after the end of Cold War period. Given the popularity of the image of North Korea as unreliable partner or archenemy and the lack of direct experience with North Koreans, the South Korean governments' attempts at softer approaches, such as comprehensive engagement with North Korea, often became the target of criticism from the conservatives. In turn, the conservative criticisms often remind South Koreans of North Korea as an enemy. This force became a domestic restriction on the pursuit of economic engagement by the South Korean government.

In trying to present the political evolution in North Korea, it is important to note that appearances could be misleading because North Korea is one of the least transparent states in the world. Nonetheless, some political trends seem credible. One of the trends was the necessity of a strong military establishment in the power succession process that began in the 1970s, institutionalising the incremental assumption of power by Kim Jeong-il, looking towards the eventual death of Kim Il-sung. A key part of the process, for present purposes, was the creation of political support systems for the 'Dear leader', that included military constituencies.

North Korea seems to have institutionalised leadership succession by revitalising the support groups behind a highly centralised leadership group. In particular, the younger-generation military constituencies owing their allegiance to the Kim Jeong-il were crucial because they helped to perpetuate North Korea's military state. It was evident after the death of Kim Il-sung that the succession of Kim Jeong-il was successful because his most important political asset was the level of support he had gained among North Korea's military establishment. This means that strong military support is the necessary requirement for regime survival in the view of political elite. It is no surprise that both the elder and the junior Kim arrogated for themselves the title and the uniform of "supreme commander."

Importantly, the hierarchical relationships in the military have been a crucial element in the North, and became the cornerstone of the Kim Jeong-il regime. However, the North's strong military establishment became a restriction on its economic opening and reform in the 1990s (Olsen 1999: 205-6).

In sum, the above historical overview after the division of Korea shows that national security issues for two Koreas have been characterised primarily in terms of military security. For South Korea, military threats from the North have been real and acute, ranging from the old memory of the Korean War to the numerous covert and overt military provocations by the North involving border clashes, guerrilla penetrations, espionage and psychological warfare. For North Korea, the military alliance between South Korea and the United States has been a real threat. Thus, ensuring national survival in a precarious security environment has remained the primary national goal of the two Koreas. In order to cope with insecurity, South Korea has attempted to maximise its military power, to mobilise its human and material resources, and to maintain an effective alliance with the United States, and indirect economic support from Japan. Meanwhile, North Korea signed a treaty with both the Soviet Union and China for its security.

This balance of power between the two alignments proved to be effective in creating stability in this region, and no country wanted to break the status quo. Moreover, along with the Cold War bipolar system, the two Koreas confronted and competed with each other in the military, economic and diplomatic fields, and though there were some dialogues and contacts, these had no impact on improving inter-Korean relations. Also, the two Korean governments shaped a military-oriented political culture in their domestic societies during the Cold War era. This culture gave both Korean governments unlimited power to dictate policy toward the other Korea, and also shaped public opinion towards a tense and rigid perception of each other.

In the overall hostile security environment, South Korea ended up clearly winning in all fields despite its inferiority to North Korea in the early days. North Korea's economic difficulties in fact generated another phase of insecurity in the Korean Peninsula towards the

end of the Cold War era. The following section will examine these international changes that impact on the nature of the North Korean security problems in the 1990s.

## **2.2 Military tensions on the Korean Peninsula in the post-Cold War period**

Although the Cold War ended, the Korean peninsula in the 1990s remained a source of military tension, due to the danger of armed conflicts inherent in North Korea's military posture, including the proliferation of nuclear and ballistic missile technology. Thus, the Korean Peninsula could be, once again, the centre of the regional struggle among powerful nations and the two Koreas. In fact, North Korea's nuclear and missile programme in the 1990s appeared as vivid examples of heightened insecurity in the Korean Peninsula.

The build-ups, tensions, and crises on the Korean peninsula in this period took place despite the demise of Cold War period and the signs of the two Koreas moving towards reconciliation. From the early 1990s, the two Koreas initiated a series of inter-Korean dialogues, and signed on 13<sup>th</sup> of December 1991 the 'Agreement on Reconciliation, Non-aggression, Exchanges and Cooperation'. Under this agreement both sides are committed to respect their respective political entity; to agree to the principle of non-interference; to renounce the option to attack each other; and to improve economic and social cooperation and exchanges (MOU 1992).

### **2.2.i Nuclear crisis**

However, the hope for a peaceful coexistence of the two Koreas was threatened by increasing concern over North Korean nuclear programs (Mazarr 1995).<sup>24</sup> The issue of North Korean nuclear development had surfaced as early as mid-1980s, when a U.S. intelligence satellite

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<sup>24</sup> According to Michael Mazarr (1995: 4-8), the new emphasis on nonproliferation stems from the end of the Cold War. When the Soviet Union was brandishing 30,000 or more nuclear weapons at the United States, the threat of a handful of Pakistan, Indian, or even North Korean bombs did not seem a dominant security concern. It was a second-tier concern. Now the Soviet Union has disappeared, it is very possible that no other country possesses the combination of economic, political, and military strength to assume such a role. In such an environment, threats that once were secondary are now of primary importance.



gave U.S. analysts evidence of the construction of a second reactor in the Youngbyon nuclear plant, which could produce a bomb's worth of plutonium. With concern about the North's nuclear ambitions, the US persuaded the Soviet Union to pressure the North into signing the Nonproliferation Treaty (NPT) on 12 December 1985.<sup>25</sup>

Although the North signed the NPT, however, it delayed follow-ups such as the signing of the IAEA safeguards agreement, and the acceptance of regular IAEA inspections at its nuclear facilities. In the early 1990s, the Bush government began to try to persuade the North to comply with the IAEA inspection. It promised in September 1991 the withdrawal of all the US tactical nuclear weapons from South Korea, and one off bilateral high-level talks with North Korea. Also, the US and South Korean governments announced the cancellation of the 1992 US-South Korea Team Spirit military exercise, which was considered a serious military threat in North Korea. Moreover, after consulting with the United States, South Korea also followed the US policy of persuasion. For instance, on the 31<sup>st</sup> of December 1991, the two Koreas concluded a Joint Declaration on the Denuclearisation of the Korean Peninsula, agreeing not to test, produce, receive, possess, store, deploy, or use nuclear weapons. As a result of the US-South Korean persuasion policy, on the 7<sup>th</sup> of January 1992, North Korea announced its intention to sign a safeguard agreement with the IAEA, and finally accepted IAEA inspections in May of the same year (Chung Ok-nim 1995: 12).

After North Korea permitted IAEA inspections, the IAEA made 6 inspections at North Korea's nuclear facilities between May 1992 and February 1993. Following these inspections, IAEA suspected that North Korea had more chances for plutonium reprocessing than it had declared. With this disturbing evidence, the IAEA demanded special unscheduled inspections on two other suspected sites to resolve the question of North Korea's nuclear development. However, North Korea refused to accept special inspections on the 7<sup>th</sup> of February 1993, and argued that the special inspection was unprecedented, and an infringement of sovereignty and national security (*Chosunilbo*, 8 February 1993).

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<sup>25</sup> For details about the nuclear crisis case, see Mazzar (1995), Chung Ok-nim (1995) and Sigal (1998).

Meanwhile, dissatisfied with the progress of North Korea's compliance on nuclear inspections, both South Korea and the United States governments began to press North Korea to make satisfactory progress on the inspection. The two governments announced in October 1992 the resumption of Team Spirit in March 1993, unless North Korea permitted the special inspection by the IAEA. The Ministry of National Defence (MND) of South Korea announced that they would use a B-1B plane, which is able to deploy nuclear weapons, in the 1993 Team Spirit (*Joongangilbo*, 26 January 1993). Moreover, the South Korean government revealed the existence of an alleged North Korean spy ring in the South. The National Security Planning (NSP), which is South Korea's main intelligence service, announced that there had been several dozen North Korean agents in the South, including prominent South Korean scholars and labour leaders, who had tried to establish anti-government political forces in South Korea in preparation for Korean unification in 1995.

North Korea reacted furiously, arguing that these acts were designed intentionally to disrupt the implementation of the North-South Korean accord, reached in 1991, and to disrupt the improvement of U.S. and North Korean relations. Predictably, during Team Spirit war game that month in 1993, North Korea, on the 12<sup>th</sup> of March 1993 announced that it would abandon the NPT to give ninety days' notice and declared 'semi-war' status on the Korean Peninsula (Kay 1993: A12).

After North Korea decided to abandon the NPT in early 1993, the reaction of the newly elected both Bill Clinton (US) and Kim Young-sam (South Korea) governments were to seek a diplomatic solution on the nuclear crisis by using carrot-stick diplomacy. On the one hand, the United States and South Korea pressured North Korea with UN resolutions on the imposition of economic sanctions, unless North Korea would not comply with IAEA by the 12<sup>th</sup> of June 1993. On the other hand, the United States and South Korea preferred that the crisis be resolved by diplomatic solutions. The US agreed to resume direct talks with North Korea on the 22<sup>nd</sup> of April 1993.

Hence, on the 19<sup>th</sup> of July 1993, the second round of US-North Korea talks produced a joint statement in which the United States proposed that North Korea adapt light-water

reactors (LWR) to replace their current graphite-moderate reactors. It was the first time that the US was willing to put economic concessions on the negotiation table to resolve the crisis. In fact, the United States was interested in the fact that these LWRs are much less efficient at making plutonium for nuclear weapon. Pyongyang also seemed to be pleased, because not only were these LWRs helpful for solving the North's energy problems, but also this project could be used as a bridge to improve relationships with the US and possibly Japan, which were important factors for ensuring the North Korean regime's survival in the post-Cold War era. In fact, it was later proved to be a key solution in resolving the nuclear crisis. The U.S. negotiator Robert Gallucci, for instance, pointed out at the time that "this accord as a small but significant step" (quoted in Stevenson 1993: A2).

However, the lack of multilateralism in the resolution of the nuclear crisis actually contributed to an increase in tension on the Korean Peninsula. The IAEA's continued insistence<sup>26</sup> on special inspections, and a continuity of inspections safeguards, North Korea's desire to resolve the nuclear issue only through bilateral talks with the US while ignoring IAEA and South Korea, and South Korea's furious reaction to the North Korean tactics contributed to an increase of tension in the later part of North Korea's nuclear crisis.

For instance, North Korea's negotiating tactic, "*tongmibongnam*" which was to engage in a dialogue only with the US, excluding other parties, including IAEA and South Korea, contributed to the continuing nuclear crisis. Consequently, South Korea's Kim Young-sam government was displeased because its excessive dependence on the United States dealing with the North left it as a third party in the negotiation. Faced with harsh domestic criticism from South Korean conservatives, the Kim Young-sam government changed its stance from a conciliatory policy towards a much stronger policy, and demanded serious North-South talks in return for suspension of Team Spirit as well as the resumption of high-level talks between the United State and North Korea. However, South Korea's demand were

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<sup>26</sup> For instance, Sigal (1998: 70) pointed out that the nonproliferation experts became increasingly impatient and wanted to see North Korea punished for breaching the NPT and defying the IAEA. They were more worried about preserving the dignity of the IAEA's inspection procedures than about preventing future proliferation.

not realised and only resulted in a disparity between the US and South Korea, due to different priorities and procedures concerning nuclear issues (*Chosunilbo*, 28 November 1993).

With delay on the progress of nuclear inspections, US and South Korean officials began to talk about sanctions more frequently, and stated that the loss of continuity of inspection safeguards would lead to a call for economic sanctions in the UN. However, North Korea had repeatedly stated that it would consider the imposition of sanctions upon itself to be an act of war, and would respond accordingly. At the same time, North Korea showed continuing interest in a dialogue with the US. For instance, North Korea showed willingness to seek a 'package deal' or 'comprehensive approach' to resolve the nuclear crisis. On 11<sup>th</sup> of January 1994, North Korean officials made a statement that they would accept the inspections that the IAEA demanded, if this were to be followed by a 'package deal' to the nuclear problem. North Korea seemed to be telling the US how to go about solving the nuclear issue (Chung Ok-nim 1995: 78-86).

As will be discussed later, North Korea's strategy behind the 'package deal' was that using the nuclear card, it could achieve security guarantees and also economic benefits from the United States and possibly Japan. After the loss of former allies, Russia and China, and the demise of other socialist regimes, the rapid economic decline and the growing economic gap with South Korea, the improvement of relationships with the United States became North Korea's top priority in terms of political, military and economic survival (Mazzar 1995: 135-6). After the talks between North Korea and the US, in January 1994, North Korea accepted an IAEA continuity of safeguard inspection in return for the cancellation of Team Spirit, and another round (The third round) of US-North Korea talks.

As a result of the agreement on January 1994, IAEA inspectors returned to North Korea in March 1994 to conduct more routine inspections. During the inspections, however, inspectors argued that North Korea has progressed with its nuclear weapons work, and expanded the capacity of its reprocessing centre. The IAEA team demanded the gathering of samples of hot sell from the plutonium reprocessing facility.

North Korea however disrupted IAEA's activities. After that, the IAEA withdrew its inspectors. The US and South Korea began to move toward the resumption of Team Spirit in 1994, and began to reconsider the imposition of economic sanctions. The economic sanctions against North Korea were to be developed in three stages. The first was to involve sending a warning sign to North Korea by stopping the flow of money, especially from the *chochongryun* (*chosensoren* in Japanese), pro-North Korea association of Korean residents in Japan, and through prohibition of their visits to North Korea. The second was the cessation of investment and remittances to North Korea; and the third and final stage was the interdiction of all shipping traffic to the North, including oil (*Chosunilbo*, 17 April 1994).

On the 19<sup>th</sup> of March 1994, the nuclear crisis was intensified when Park Young-su, a North Korean delegation representative, threatened that "Seoul will turn into a sea of fire" in the case of war during the North-South talks (Glain 1994: A6). On the 30<sup>th</sup> of March 1994, the US Secretary of Defence, William Perry, warned that the United States would seek to enforce inspections to stop nuclear weapon development even at the risk of war. The continuing failure of the inspections also brought about an increase in US military readiness in South Korea, including deployment of Patriot and Stinger anti aircraft missiles. At the same time, North Korea and the United States, especially the State Department, still desired a way out of the crisis, without military conflict. This was evident in North Korea's acceptance of the IAEA's follow-up inspection, in return for the third round of the US and North Korea talks. However, nothing was finally decided. No solid proposals were made. Negotiations since the June of 1993 did not produced any substantial result.

The most serious tension was occurred in May 1994, when North Korea disturbed IAEA's sampling, which would have revealed how much plutonium North Korea had acquired for making nuclear weapons in the past. North Korea had promised to allow the IAEA to observe defueling and to check the rods afterwards, to ensure that there was no diversion of fuel for reprocessing. Toward the end of May, the dialogue between North Korea and the IAEA was broken off, and North Korea began to unload fuel, despite an IAEA appeal to North Korea to delay the process. IAEA Director General, Hans Blix, sent the UN Security

Council a letter saying that because of continued defueling by North Korea, the IAEA's opportunity to segregate and measure the fuel rods had been lost, therefore, the IAEA could not judge whether North Korea's nuclear material had been diverted in the past.

The US and South Korea began to move towards specific plans for economic sanctions. Pyongyang responded with the announcement that the sanctions would be regarded as a declaration of war. Thus, the US, North and South Korea militarily prepared for a possible 'the second Korean War'. However, fear on both sides was apparent. The US and South Korea's fear was that unlike the Gulf War, an air-strike on North Korean Youngbyon nuclear facilities might lead to full-scale war against North Korea, with enormous human, political and economic costs. For North Korea, the US's wave strike with sophisticated weapons like in the Gulf War, would be a disaster.

Despite these fears, the breaking out the second Korean War was very close at that time. In June 1994 the US leadership knew that they were on the brink of war with North Korea, and considered taking military options (Carter and Perry 1999: 128-33). According to a South Korean congressman, the US actually prepared to initiate an attack on North Korea at that time, but it was dissipated due to a North Korean official's direct call to the White House (*Chosunilbo*, 6 November 1998).

However, the military tension came to an end on 15 June when the former US President Jimmy Carter, as a third party, visited North Korea and reached an agreement with Kim Il-sung that North Korea would accept the IAEA's inspections, North-South presidential talks in the near future, and would stop its nuclear programme in return for a new dialogue with the US. Carter's 'second-track diplomacy' was brilliantly successful and ended a long and dangerous confrontation. Finally, the US and North Korea produced the 'Agreed Framework' (AF) in Geneva on the 21<sup>st</sup> of October 1994. Under this agreement, North Korea confirmed that it would freeze its nuclear programme in return for US promises to establish an international organisation, KEDO (Korean Peninsula Energy Development Organisation), that would supply two 1,000 megawatt LWRs to North Korea, and provide free oil until LWRs were constructed. Moreover, the US guaranteed nuclear protection for North Korea

and promised to move towards full normalisation of economic and political relations with the North. In the meantime, North Korea promised to accept full international access to its existing nuclear facilities, and to be in full compliance with safeguards. North Korea also agreed to resume direct talks with South Korea. Hence, the US, South Korea, Japan, and later EU<sup>27</sup> were established a KEDO and formed a consortium to construct two LWRs in 1995. In response to South Korea's demand, the main contractor for LWRs construction was South Korea's Korean Electric Power Company (KEPCO), in return for South Korea's promise to provide substantial amounts of money for the construction.

## **2.2.ii Continued military tensions and instability on the Korean Peninsula**

But even if the nuclear issue has been declining as an urgent source of insecurity, there are still other factors that could bring North and South Korea and regional powers into military crises. In fact, the Korean Peninsula still remains one of the most heavily armed regions in the world, and both Koreas still perceive each other as capable of military initiatives and intent on unifying Korean Peninsula on its own terms.

From the North Korean perspective, the US-South Korea military alliance is an enormous security threat given its superiority in massive and sophisticated weapons system, and North Korea's comparative lack of support from Russia and China. US-South Korea's military exercise such as Team spirit and the 5027 military war plan, are still in place. For instance, the objective of the 5027 war plan shifted in the 1990s from a defensive stance to an offensive one, designed to ultimately unify the Korean Peninsula by force in the case of a full-scale war with North Korea (Yang Hung-mo 1999).

For the United States, North Korea's development of nuclear and long-range missiles has been regarded as a serious threat to the US post-Cold war global strategy of 'nonproliferation', intended to stop the proliferation of weapons of mass destruction (WMD) including nuclear, biological, and chemical weapons. The United States is very concerned

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<sup>27</sup> The EU formally became an executive board member of KEDO in September 1997 after the EU Commission convinced the member states of the EU to use KEDO as a means to the Common Foreign

with North Korea's intention to develop WMD. It is not only a threat to the stability on Korean Peninsula and the East Asian region, but also to global security, through the threat of Pyongyang's transference of WMD to other countries, especially "rogue states", whom the US military is likely to fight in the future (Carter and Perry 1999: 133-5). In fact, it was reported that North Korea has already sold some of its Nodong-1 missiles to Iran and Pakistan. As will be discussed in chapter 4, the US and Japan's concerns over North Korea's development of WMD grew when North Korea launched a long-range missile on 31<sup>st</sup> of August 1998.

Also, from the South Korean perspective, North Korea seemed unwilling to give up its "united front strategy," which aimed at reunifying the Korean Peninsula by communising the South. The strategy consists of two parts: first, Pyongyang would instigate revolution in South Korea - "People's revolution for liberation inside the South"- and second, it would accomplish unification by force by weakening the US-South Korean alliance system, and causing the withdrawal of US troops from the South (Han Young-sup 1998: 331-2). Many South Korean policy-makers and North Korean specialists still believe that North Korea's post-Cold War behaviours, such as the development of WMD, continued reconnaissance missions in South Korea, efforts to exclude the South Korean government from dialogues and engaging only with the United States, are aimed not only at creating tensions and divisions in the South Korean society, but also in the relationship between the US and South Korea.

Vivid examples exist of the continuing danger of military conflicts on the Korean Peninsula, even after resolving the nuclear crisis in 1994, such as when a North Korean submarine entered the East Coast of South Korea in September 1996. Although the submarine was probably on a routine reconnaissance mission, the Kim Young-sam government chose to regard it as a deliberate provocation and mobilised 60,000 troops to search for the North Korean crew. The operation ended with twenty-four North Korean soldiers dead and fourteen South Korean casualties. South Korean President Kim Young-sam demanded an apology from North Korea and suspended all its humanitarian aid and economic activities with North



Korea until its leaders apologised for this incident. It was reported that the South Korean government even considered military punishment immediately after the incident took place and prepared further armed strikes by selecting strategic targets in the North. However, it did not intend to engage in a full-scale war with the North, and the United States persuaded South Korea not to attack (*Joongangilbo*, 16 October 1996).

Although the United States supported South Korea's demand for North Korea's apology, and agreed to engage in large-scale military exercises with South Korea in the same year, it was also worried that South Korea pursued a hard-line approach towards North Korea in order to appeal to domestic constituencies. In fact, tension between South and North Korea was high enough to trigger an inter-Korean military conflict until the 29<sup>th</sup> of December 1996, when North Korea expressed 'deep regret' to South Korea (Oberdorfer 1998: 391-3). Thus, the series of military tensions and crises surrounding the Korean Peninsula prove that, even after the passing of the nuclear crisis, the possibility of military conflict still exists in the Korean Peninsula, even in the post-Cold War period.

### **2.3 The causes of military crises: North Korea's total insecurity in the 1990s**

As demonstrated above, even in the post-Cold War era, North Korea's military threat and the possibility of military conflict in the Korean Peninsula persist, and the use of military force remains the final means of resolving the security problems. However, this section will show that the post-Cold War North Korean security problems cannot be conceived of as being the same as during the Cold War era. There are clear departures from North Korea's military aggression during the Cold War, based on its intention to communise the South by force. North Korea faces serious external and internal challenges, and thus has total insecurity in the 1990s; its military drives are aimed at the fundamental goal of regime preservation.

#### **2.3.1 North Korea's loss of major allies**

There are two main factors that have contributed to North Korea's total insecurity in the post-Cold War period. Firstly, North Korea's insecurity in the 1990s has in some way resulted

from the end of Cold War, and the eventual collapse of the bipolar structure in the Korean Peninsula. The end of the Cold War meant the dissolution of the confrontation between the US and the former Soviet Union. Moreover, the tension between the Soviet Union and China during the Cold War era diminished gradually. Beginning with President Gorbachev's promise to end the two countries' split, the Soviet Union and China agreed to reduce and limit military and weapons build-ups within their borders (Park Kun-young 1999a: 58-59). As a result of the end of the confrontation between the US and the Soviet Union, and of Soviet-China rivalry, North Korea lost its security benefits and space for manoeuvre. As discussed earlier, North Korea benefited from the guarantee of military protection from the Soviet Union due to the US and Soviet military confrontation. Also North Korea was able to gain economic assistance by exploiting the rivalry between the Soviet Union and China.

Furthermore, the two former allies, the Soviet Union and China, began to change their posture toward North Korea. During the Gorbachev years rapid changes in the Soviet Union occurred. This included the decline and collapse of the Communist Party of the Soviet Union (CPSU), drastic ideological revision, and the Soviet Union's own search for new economic interests.<sup>28</sup> As a result, its conventional economic and military support for North Korea began to wane and it began to pursue new interests by expanding trade and economic collaboration, and by establishing diplomatic relations with South Korea on 30<sup>th</sup> of September 1990.

Russia, the successor state to the Soviet Union, because of its own difficulties, has been willing to offer North Korea little other than continued arms sales at prevailing world prices and some limited technological assistance. As a result, bilateral trade between the two countries has dropped sharply. Moreover, while Pyongyang did not wish to abrogate the

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<sup>28</sup>The collapse of communism under Soviet leadership brought complete confusion and great depression to the North Korean leadership in terms of its basic ideology and policy, and forced it to re-examine both its domestic and foreign policy objectives and strategies. In fact, the collapse of the communist rule in the Soviet Union resulted in 'the most serious challenge to North Korean regime survival since its establishment in 1948' (Roy 1994: 370).

security treaty that was signed with Moscow in 1961, and was renewable automatically every five years unless one party objected, Russia finally announced that the treaty would not be renewed in 1995 (*Chosunilbo*, 29 September 1995). Thus, Russia's obligation to automatically come to North Korea's defence in case of attack, which was included in the security treaty, was practically abrogated. Furthermore, Russia, who had been an important player in the Korean Peninsula, began to disengage from Korean affairs due to difficulties with its military and economic capability, and substantially lost its influence. For instance, Russia was not included in the KEDO agreement, and was excluded from the 'four-party peace talks' held among the US, China, South Korea, and North Korea, as first proposed in April 1996. For North Korea, Russia was no longer a superpower, did not share a common ideology with North Korea, and it could not provide the same economic and security assistance as it had in the Cold War period.

With the changes in the international environment from the late 1980s, Beijing also made substantial adjustments to its Korean policy. Despite its openly stated alignment with Pyongyang, China shifted its policy to a balance between North and South Korea. After the Soviet Union and the Eastern European countries established diplomatic relations with South Korea, from the late 1980s, China gained more freedom and confidence in expanding its relations with South Korea. In fact, China had strong incentives to develop relations with South Korea. Fundamentally, its good relationships with both Koreas put China in the best possible situation in East Asian affairs, by increasing its leverage in dealing with the Korean problem and East Asia as a whole (Zhao 1995: 197-8).

The emphasis on economic development was one of China's primary reasons for normalising relations with South Korea. In fact, China had long since shifted its domestic priorities from political campaigning to economic modernisation. China's modernisation programmes cannot be realised without external support and exchanges from industrialised countries that can provide advanced technology, capital, markets, and managerial skills. South Korea was a nearby supplier of these resources, and having South Korea as a commercial partner, along with Japan and the West, would help to diversify China's sources. In fact,

China-South Korea economic relations expanded rapidly and they became important trade partners for each other in the 1990s.

At the same time, China understood the importance of North Korea's survival. Unlike Russia, Communist China needs moral support from North Korea in order to uphold communism as a political force. Also, North Korea can be the buffer state to deter US influence throughout the Korean Peninsula. China's need for North Korea was evident in the nuclear crisis, when China reject the use of both economic sanctions and military power. The Chinese have continued to support North Korea politically and economically. China has provided economic aid to help North Korea in recent economic crises, preventing its collapse, and it became the number one trading partner, replacing Russia, from 1992 onwards. In sum, it appears to be in China's best interest to maintain a warm relationship simultaneously with North and South Korea.

Even though China is still the most important supporter of North Korea, the relationship between the two countries is not the same as it was in the Cold War period. Following the normalisation of diplomatic relations between China and South Korea in August 1992, the Chinese requested that all Sino-North Korean trade be settled in hard currency, though China did reschedule North Korea's payment of the deficit. Hence, it seems that for China, North Korea had become a burden while South Korea had become an opportunity in the 1990s.<sup>29</sup>

In sum, the collapse of communism in the former Soviet Union and the imbalance of power between the North and South alliance systems in East Asia after the Cold War period gave North Korea an enormous political and economic burden and created the danger of its collapse. Its insecurity became more apparent when South Korea began to exploit its growing economic power to work towards the normalisation of political and economic relations with the former socialist states of Europe, and eventually with Russia and China.

### 2.3.ii North Korea's economic insecurity

Another and the most urgent source for North Korea's growing insecurity in the 1990s can be found in its drastic economic decline. As seen in Table 2-1, North Korea has experienced a decline in GNP with a minus growth rate from at least 1990 to 1996. It is reported that the North Korean economy was showing no signs of recovery as late as 2001 (*Joongangilbo*, 29 October 2001). In the face of severe economic hardship, the North Korean leadership had to open its door to international economic assistance, and has had to seek economic engagement with former enemy states, particularly the US and Japan, and even South Korea.

**Table 2-1. North Korea's GNP growth from 1981-1998 (%)**

	1981 -84	86	87	88	89	90	91	92	93	94	95	96	97	98
EABC	4.3	2.4	3.0	3.0	2.4	-3.7	-5.2	-2.0	1.0	-2.0	-1.0	-2.0	1.0	3.0
Bank of Korea	4.3	2.4	3.0	3.0	2.4	-3.7	-5.1	-7.7	-4.2	-1.8	-4.6	-3.7	-6.8	---

Sources: based on Euro-Asian Business Consultancy (EABC) and Bank of Korea data. Quoted from Michell (1998: 139).

#### 2.3.ii.a Food sector

The most visible sign of North Korea's economic crisis in the 1990s is the food sector. In 1995, North Korea made an unprecedented appeal for food assistance to humanitarian agencies. North Korea's surprising appeal to the outside world was significant both in terms of its recognition of its own severe economic structural problems caused by self-reliance (*juche*) development and also for its willingness to open up to the outside world for possible foreign assistance.

In fact, from early 1980s, North Korea seemed to have food shortage problems. For example, in the 1980s, Kim Il-sung emphasised that communism would come true only when

<sup>29</sup> It was reported that privately Chinese leaders are unhappy with North Korea's political succession process from father Kim Il-sung to his son Kim Jeong-il, its refusal to undertake serious economic

people are given enough food, and said “rice is communism”(quoted in Kim Woon-keun 1999: 91). But this was not a serious problem then because North Korea was capable of importing food from the former Soviet Union and China. However, grain production and self-sufficiency declined significantly in the 1990s, to below 60% of the self-sufficiency level in 1995. As a result, many North Koreans, especially children and women, are reported to be at risk of malnutrition. In 1996 the UN World Food Programme estimated that almost 2.5 million people were at risk of starvation in North Korea (World Food Programme 1997).

North Korea's food shortage is caused by several factors. First, weakened foreign grain markets, especially in the former Soviet Union, have deteriorated the supply of resources. Moreover, the trade ban against North Korea, imposed by Western countries, has prohibited North Korea from importing necessary resources and technologies. Second, a limited supply of energy, raw materials and component parts restricted industrial activities. Because supplied fertilisers and agro-chemicals became insufficient, due to the severe drop in the operational rate of industries, agricultural productivity also decreased sharply. Thus, food security in North Korea remains closely linked to the overall performance of the economy, which determines its ability to generate resources for importing both agricultural inputs and raw materials for manufacturing. Third, the decrease in agricultural production in recent years is due, to some extent, to continued natural disasters such as floods, droughts and tidal waves. It is generally believed that the recent abnormal weather conditions have simply occurred by chance. However, the high frequency of floods can also be attributed to the level of deforestation in the mountains. Large parts of the forest have been felled for fuel-wood use due to the lack of oil and coal (Kim Woon-keun 1999: 89).

Fourth, the current agricultural stagnation is clearly caused by the collective farming system, the so-called “*Juche*-oriented farming method.” It is based on a sub-work system that consists of units of 10 to 25 farmers. Each member receives an allocation of products based on his or her working standard, as measured by the level of production. However, this sub-work system is challenged by many side effects such as people overrating work performance

in order to receive larger allocations from the government, which leads to improperly assigning production goals. Lee Min-bok, a former researcher at the North Korean Agricultural Institute, argued that the main cause for the big difference in agricultural productivity between South and North Korea is not the land, weather, or technology, which are generally believed to be factors, but private cultivation in the South versus collective farming in the North Korea (Interview with Lee Min-bok, Seoul, December 2000).

**Table 2-2. North Korea's supply and demand of grain**

Unit: 1,000 tons

Year	Demand	Output				Shortage	Self-Sufficiency (%)
		Total	Rice	Corn	Others		
1988	5,629	5,210	2,099	2,503	608	419	92.6%
1989	5,762	5,482	2,159	2,681	642	280	95.1
1990	5,757	4,812	1,932	2,380	500	945	83.6
1991	5,762	4,427	1,641	2,210	666	1,335	76.8
1992	5,894	4,198	1,343	2,256	599	1,696	71.2
1993	6,065	3,884	1,317	1,963	604	2,181	64.0
1994	6,156	4,025	1,402	2,024	599	2,131	65.4
1995	6,224	3,451	1,211	1,851	389	2,773	55.4
1996	6,061	3,690	1,340	1,976	374	2,371	60.9
1997	6,188	3,489	1,503	1,599	387	2,699	56.4
1998	6,270	3,886	1,461	1,947	478	2,384	62.0

Note: the decline in demand in 1996 was due to estimate a lower of the population.

Source: based on the Ministry of Unification of South Korea (MOU) data. Quoted from Kim Woon-keun (1999: 95).

Due to the severe food shortage, North Korea began to rely heavily on foreign assistance to feed its population. International NGOs and various states provided food assistance to North Korea which amounted to more than a million tons of grain each year from 1996 up to present. More importantly, North Korea became open to foreign influence in the 1990s. Especially the numerous humanitarian agencies, which became actively involved in food assistance in North Korea, contributed to an increase in the availability of information and improved access to North Korean institutions. Also, North Korea has had to engage with

countries such as the United States, Japan and South Korea, former enemy states in the Cold War era, for humanitarian aid and agricultural cooperation for technology and development. Therefore, North Korea's opening up to the outside world, which would have been unimaginable in the 1980s, resulted from its economic difficulties (Smith 1999).

### **2.3.ii.b Energy sector**

One of the direct reasons for North Korea's recent economic crisis is energy insufficiency. North Korea's energy policy has been operated on the basis of a 'juche economy'. In other words, it exploited indigenous resources, notably coal to avoid dependency on foreign imports. As a result, in the 1990s, over 80 percent of North Korea's total energy supply came from domestically produced coal used in its thermal power plants. The second source of its indigenous energy supply was hydroelectric power, which consisted of over 7 percent of its energy supply. There is no domestic production of oil in North Korea despite oil resources having reportedly been located offshore in both the East and West seas, but due to financial and technical difficulties these resources have not been exploited (*Sisa Journal*, 12 November 1999).

To avoid dependency on foreign oil imports, only two of North Korean thermal plants are, reportedly, oil-fired. One is the 200 MW plant at 'Unggi', where many of the KEDO heavy fuel oil deliveries have been made. The other is believed to be quite small (Hong Soon-jik 1998). Hence, North Korea's foreign energy dependency is quite low, at around 10-12 percent of total energy supply, and its energy policy of self-reliance was quite successful until the early 1980s, due to the hydroelectric resources developed extensively during the Japanese colonial period, and to substantive and high-quality coal production.

However, North Korean energy self-reliance began to drop in the 1990s. The first reason for this is that North Korea's coal production, its main source for energy, was significantly reduced in quantity and quality due to the lack of technology and foreign advanced equipment to help exploit new coal reserves. Secondly, North Korea's loss of access to foreign crude oil and refined products damaged greatly its industrial activities. In



particular, the poor maintenance of its transportation system and equipment caused bottlenecks in many industrial sectors. These problems were caused by scarce resources of foreign currency to pay for foreign imported oil and by the suspension of Russian oil supplies, which had been available in the Cold War era on a 'soft money' basis. Thirdly, its energy sector has a whole range of inefficiency problems; most of the thermal power stations are inefficient due to the lack of key spare parts; the electricity distribution system is poor and inefficient; responsibility and management within the energy industry are fragmented. It was reported that perhaps as high as 85% of North Korea's hydroelectric generating capacity was damaged by the severe floods of 1995 and 1996. But, North Korea seems not to have the capability (both in heavy equipment and fuel) to recover its facilities (Hippel and Hayes 1998: 89).

**Table 2-3. North Korea's primary energy supplies (Thousand tons of oil equivalent) from 1989-1997**

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Coal	32,069	30,217	28,103	26,266	24,383	22,551	20,985	19,546	18,959
% of total	82.1%	81.2%	80.7%	82.3%	82.5%	82.3%	81.9%	81.4%	81.3%
Hydro-electric	2,492	2,492	2,731	2,058	2,056	2,021	1,978	1,936	1,878
% of total	6.4%	6.7%	7.8%	6.4%	7.0%	7.4%	7.7%	8.1%	8.1%
Combustible Renewable & waste	947	957	967	981	994	996	1,008	1,019	1,022
% of total	2.4%	2.6%	2.8%	3.1%	3.4%	3.6%	3.9%	4.2%	4.4%
Crude oil	2900	2908	2409	1908	1409	1118	1118	1129	1095
% of total	7.4%	7.8%	6.9%	6.0%	4.8%	4.1%	4.4%	4.7%	4.7%
Petroleum Products	654	599	612	705	729	731	519	372	369
% of total	1.7%	1.7%	1.8%	2.2%	2.3%	2.6%	2.1%	1.6%	1.5%
Total	39,062	37,173	34,822	31,918	29,571	27,417	25,608	24,002	23,323

Source: based on International Energy Agency Statistics (1989-1997), and Hyundai Research Institute (HRI) data ([www.hri.co.kr/nk/sc16.htm](http://www.hri.co.kr/nk/sc16.htm)).

As a combined result of these energy problems, in 1997, the level of North Korea's total primary energy supplies was reduced to that of the early 1970s. The failure to meet the energy supply target of the Third Seven Year Plan (1987-1993) led to a reduction across the whole of North Korean industrial activities. Some observers indicated that North Korean factories probably operates at around 30% of total capacity, and they often experienced blackouts for extended periods of time (Hong Soon-jik 1998).

With this severe energy problem, North Korea became vulnerable to outside help. For instance, the key to resolving the nuclear crisis was to provide the North with KEDO projects which offer both heavy oil until the first new reactor becomes operational and two light water reactors generating up to 2,000 MW, in exchange for North Korea's agreement to freeze its nuclear program. Pyongyang is clearly concerned that this massive project might threaten the political survival of the North Korean regime, due to the danger of ideological contamination from the outside world, and particularly from the South Koreans. However, the North Korean leadership perceived that limited openness to outside world is possible, and, more importantly, its dire energy situation forced it to accept the KEDO project. Moreover, North Korea even requested that the South Korean Kim Dae-jung government supply up to US\$150 million worth of electricity, at the inter-Korean ministerial talks in November 2000, and this remains a high priority agenda in the inter-Korean negotiations (*Chosunilbo*, 17 December 2000).

### **2.3.ii.c Trade sector**

North Korea's economic system is a centrally planned economy, characterised by extreme control of markets and closure to international economic exchange. This so-called Juche economy is designed to avoid dependence on other countries. Historically, North Korea was able to trade with countries in the socialist bloc, especially the Soviet Union and China. Still, trade was never a major priority, and North Korea's reliance upon trade was comparatively low for a developing economy. North Korea was able to secure important resources such as

agricultural and industrial machinery and energy resources, through trade credits and long-term trade agreements mainly with the Soviet Union and China.

However, from the late 1980s North Korea's trade environment deteriorated. The collapse of the Soviet and Eastern European communist regimes in the 1990s caused North Korea's rapid economic decline. From 1991, Eastern European countries eliminated the former account settlement system and changed to hard currency as the means of trade. The Soviet Union, later Russia, began to partially accept hard currency from January 1991, and then made it the sole method in 1992. Even China started to its form of trade from barter towards a hard currency basis in 1992. Table 2-4 shows that the total volume of imports has constantly exceeded that of exports, and that the trade volume has fallen dramatically since 1991. This is mainly due to the dramatic decrease in trade with the USSR, as shown in Table 2-5. North Korea-USSR/Russia trade was down from US\$2,475 million in 1990 to US\$365 million in 1991, while the proportion of North Korean trade with the USSR/Russia declined from 52.3% in 1990 to 3.9% in 1997.

Thus, North Korea has been looking for new methods of acquiring hard currency. Numerous reports revealed that the North Korean government was involved in international crime, such as smuggling and selling drugs and other goods for hard currency. The severe decline in trade with other countries forced an increase in illegal activities. North Korea also engaged in the sale of military goods to third world countries. The need for hard currency in the 1990s encouraged North Korea's export of missiles and maybe nuclear related technologies to countries such as Iran, Iraq, Cuba and Pakistan. It is not clear how much North Korea earned from arms exports because this does not appear in trade statistics. However, this has clearly helped North Korea to acquire hard currency. For instance, *Joongangilbo*, a South Korean daily newspaper, reported that North Korea's Korean Central News Agency (KCNA) argued that missile development and exports are a state's legitimate right, and that the US economic embargo against North Korea was the main reason for continuing with missile trade. In 1998, during missile negotiations between the two countries, North Korea promised that it would stop missile exports if the US provided alternative

sources of supply for up to US\$500 million annually in hard currency (*Joongangilbo*, 19 June 1998).

**Table 2-4. North Korea's trade volume between 1988-1999** (US\$ millions)

Year	Exports	Imports	Total	Balance
1988	1,897	3,241	5,138	-1,344
1990	1,972	2,761	4,733	-789
1991	1,115	1,716	2,831	-601
1992	1,183	1,650	2,833	-467
1993	1,200	1,628	2,828	-428
1994	1,015	1,278	2,293	-263
1995	958	1,381	2,339	-423
1996	908	1,320	2,228	-412
1997	1,097	1,388	2,485	-291
1998	651	1,013	1,664	-362
1999	637	1,176	1,813	-539

Source: Based on Korea Trade-Investment Promotion Agency (KOTRA) data, KOTRA (2000).

Deepening economic decline and limited resource availability forced North Korea to look for new trade partners, and thus some tentative economic reform measures. One early example was the creation of a Free Economic and Trade Zone in the area of Rajin-Sonbong near the Tumen River in 1991. Also, additional legal frameworks for foreign firms operating in North Korea were established. Nevertheless, investments have remained relatively small. The *Chochongryun* (Pro-North Korea association of Korean residents in Japan) accounted for nearly 90% of investment, and most of these are concentrated in light manufacturing and retailing. Obstacles, such as North Korea's central control over labour, its underdeveloped infrastructure, and continuing political tension with South Korea contributed to the lack of success of the free trade zone policy (*Sisa Journal*, 9 December 1999: 49-50).

However, it is also true that North Korea's trade policy has undergone considerable changes in the 1990s, despite retaining the construction of an independent and self-reliant national economy as the main national goal. It was recognised that North Korea's old enemies can help its declining economy, and ensure the survival of the regime if economic opening to outside world is well managed. Thus, Pyongyang undertook negotiations with its primary

enemy, South Korea, that led to an agreement in 1991, which provided for comprehensive cooperation. Inter-Korean trade has since been continuously growing.

**Table 2-5. North Korea's trade volume with its main trade partners: 1990-1997**

		(US\$ millions)							
		1990	1991	1992	1993	1994	1995	1996	1997
Russia/ USSR	Total Vol.	2,475	365	292	331	140	83	65	84
	% of total NK trade	52.3%	12.9	11	12.5	6.6	4.0	3.3	3.9
China	Total Vol.	483	610	697	900	624	550	566	656
	% of total NK trade	10.2%	22.4	26.2	34.1	29.6	26.8	28.6	30.1
Japan	Total Vol.	476	508	480	472	493	595	518	489
	% of total NK trade	10.6%	17.9	16.9	16.7	21.5	25.4	23.2	19.7
South Korea	Total Vol.	13	111	173	186	194	287	252	308
	% of total NK trade	0.3%	3.9	6.1	6.6	8.5	12.3	11.3	12.4

Note: NK means North Korea.

Source: based on Korea Trade-Investment Promotion Agency (KOTRA) data, (KOTRA 2000, 2001a).

As of 1997, China is North Korea's largest trade partner, followed by Japan and South Korea. As seen in Table 2-5, Russia received more than half of North Korea's total trade in 1990, but became a small trade partner, with 3.9% of total North Korean trade, by 1997. Trade with South Korea has increased rapidly, although political and military reconciliation between the two Korean governments has not been achieved. Moreover, it was suggested that if North Korea would undergo successful reforms, such as a significant reduction of the military, and a release of productive factors for alternative uses, South Korea would become the number one trade partner, based on a 'natural' pattern of trade. South Korea, along with Japan, both former enemies, together would account for nearly two-thirds of North Korea's trade (Noland 1998: 201-2).

The above discussion demonstrates that North Korea faced serious internal and external insecurity in the 1990s. Externally, the end of the Cold War had serious negative impacts on North Korea's security. The international structural changes, such as the demise of USSR, the disengagement of Russia from Korean affairs, and Russia's and China's engagement with South Korea, damaged the North Korean regime in all aspects. Internally, North Korea's economic hardship and the growing economic gap with South Korea became the most immediate threat in terms of regime survival. Thereby, North Korea's total insecurity in the post-Cold War era is the main concern for instability in the Korean Peninsula, and the main cause of North Korea's military adventurism in the post-Cold War era, which will be discussed in the next section.

### **2.3.iii North Korea's survival strategies**

With difficulties resulting both from external and internal changes, North Korea began to establish some external strategies in order to break out of diplomatic isolation, to secure economic benefits, to restore the balance of power vis-à-vis South Korea, to counter South Korean pressure, and ultimately to ensure its regime survival. These strategies, which will be discussed in this section, actually contributed to continuing military tensions in the Korean Peninsula. Of course, because of the closed nature of the North Korean political system, it is difficult for outsiders to observe and analyse its external behaviours with a high degree of accuracy. However, judging from the patterns that have emerged in North Korea's foreign relations in the 1990s, several strategies of engagement with the outside world can be detected.

#### **2.3.iii.a Pyongyang's 'southern' and *tongmibongnam* policy**

First, it appears that North Korea wants to establish links with those powers traditionally on the South's side in the Cold War era, namely the US and Japan. This strategy has been called North Korea's 'southern policy' (*namginchungchek* in Korean). North Korea's aim for its southern policy, in the early stages was engagement with Japan. North Korea's policy towards

Japan underwent a significant change in 1990 as Pyongyang decided to seek normalisation with Tokyo. The change was caused by several factors. First, the Soviet-South Korean summit between Gorbachev and Roh Tae-woo, held in San Francisco on the 4<sup>th</sup> of June 1990, must have impacted on the North Korean leaders. In fact, this dramatic meeting signalled the beginning of diplomatic relations between Seoul and Moscow. In order to compensate for this setback, Pyongyang decided to seek rapprochement with Tokyo. Second, North Korea's desperate need for foreign capital and technology to revitalise its stagnant economy was also a motive. Under the circumstances, tapping Japan's capital and technology was the best option available to Pyongyang. Third, Japan also was sending signals that it was willing to have talks with North Korea on several bilateral issues including the normalisation issue (Kim Hong-nack 1998: 117-8).

On the 30<sup>th</sup> of March 1989, Prime Minister Takeshita Noboru expressed 'deep remorse and regret to Koreans for Japan's past actions in Korea and reiterated Japan's willingness to improve relations with North Korea' (*Chosunilbo*, 31 March 1989). After that, forty members of a delegation from the Liberal Democratic Party (LDP) and the Social Democratic Party of Japan (SDPJ), headed by Kanemaru Shin of LDP and Tanabe Makoto of SDPJ, visited Pyongyang on the 24<sup>th</sup> of September 1990 (Hughes 1999: 82). In a series of talks held with the Japanese delegates, North Korean leaders stressed the importance of both early normalisation of diplomatic relations between the two countries and of Japan's apology and compensation for the suffering of Koreans during Japan's colonial rule (1910-45).

After an agreement was reached through preliminary negotiations between Pyongyang and Tokyo, on the 28<sup>th</sup> of September 1990, North Korea and Japan embarked on a series of negotiations aimed at normalising diplomatic relations between the two countries. However, despite the initial optimism expressed by political leaders of both countries, the normalisation talks between Pyongyang and Tokyo were suspended, and have not had yet any substantial results.

However, North Korea was continuously willing to seek closer ties with Japan partly in order to reverse the negative international situation created by South Korea's successful

*nordpolitik*, and also in order to secure economic compensation from Japan. For instance, in the summer of 1996, North Korea made an effort to resume the normalisation dialogues with Japan. In his interview with a delegation of Japanese newspaper correspondents, on the 20<sup>th</sup> of May, Kang Sok-ju, the then Vice Minister of Foreign Affairs, stressed the desirability of handling the normalisation issue bilaterally without the influence of the US and South Korea. He also said that “[i]f Japan settled the apology and compensation issue with North Korea, Pyongyang-Tokyo relations could be normalised easily” (quoted in Kim Hong-nack 1998: 130). In a sense, the new Japan policy was linked to Pyongyang’s overall strategy for the survival of the Kim Il-sung regime.

The second and most important target of North Korea’s ‘southern policy’ is engaging with the United States. As seen in the nuclear case presented above, it seemed that North Korea used nuclear development as a diplomatic tool to engage with the United States. In fact, a number of motives - none of which are exclusionary - could explain North Korea’s use of the nuclear card in the 1990s. One possible motive is that the North Korean regime viewed the acquisition, or at least perceived acquisition by the outside world, of a nuclear arsenal as useful for security in the face of the U.S. nuclear threat and the superiority of conventional military power of the U.S.-South Korean alliance. This motive was deepened by doubts about the reliability of traditional military allies and sources of protection. In fact, the USSR had withdrawn its nuclear umbrella following the normalisation of relations with South Korea in 1990 (Mack 1991: 88). Thus, North Korea’s motive for the actual acquisition of nuclear bombs could be seen in terms of a need for a security guarantee against superior South Korean military power.

However, North Korea’s cooperative behaviour towards the US in the playing out of the nuclear crisis suggests that it was eager to forge a new relationship with the US. For instance, the contents of AF in 1994 clearly reflect Pyongyang’s intentions. Under the agreement, North Korea offered to freeze, and ultimately dismantle, its nuclear programme, and to disclose its past nuclear activities. The United States in turn committed to provide two



light-water reactors, a quantity of heavy oil annually, negative security assurances, and to move towards full normalisation of political and economic relations.

Thus, Pyongyang's acceptance of political and economic concessions from the US in return for its willingness to abandon to nuclear programme perhaps indicated that North Korea was using the nuclear card as engagement tool, to pursue closer ties with the United States. Considering Pyongyang's general cooperation on the nuclear accord, such as agreeing with the procedures for the implementation of KEDO,<sup>30</sup> its general cooperation with the IAEA and with the US officials managing the spent fuel rods, and its willingness to negotiate on the first joint search for the remains of U.S. soldiers missing in action (MIA) from the Korean War, it is evident that, despite occasional provocative behaviour, it has sought to pursue a productive relationship with the US in the 1990s.

This was also evident in North Korea's willingness to negotiate on missile issues with the US. The Berlin agreement between the US and North Korea, reached in September 1999, temporarily resolved the North Korean missile crisis that had been a source of tension since North Korea test-fired a 'Taepodong-1' missile (or satellite) in August 1998. The core of the U.S.-North Korea deal was North Korea's commitment to a moratorium on missile tests, and the U.S. promise to ease economic sanctions against the North. As a result of constant progress in the dialogue between the two countries, Cho Myong-rok, the number two man and deputy chairman of defence ministry of North Korea, visited the United States in October 2000. He had a discussion about several issues related to nuclear weapons, missile development and the removal of North Korea from its list of terrorist supporting nations, with high-level US officials including President Clinton. Moreover, US secretary of state Madeleine Albright, the highest U.S. official to visit North Korea ever, met with Kim Jeong-il on the 23<sup>rd</sup> of October 2000 (Landsberg 2001: 20-1).

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<sup>30</sup> Despite the prospect of South Korea playing a substantial role in the KEDO project, as Korean Electric Power Company (KEPCO), a South Korean public company, was going to supply Ulchin-3 power reactors, a Korean-modified version of the Westinghouse nuclear reactor, North Korea agreed with the deal. At the same time, North Korea got its way in having the United States nominated as core programme coordinator, after three weeks of difficult talks in Kuala Lumpur in June 1995 (*Chosunilbo*, 13 June 1995).

After her visit to the North, it was learned that she requested that North Korea join the Missile Technology Control Regime (MTCR) during her conversation with Kim Jeong-il. A diplomatic source in Seoul said that the two countries were preparing a comprehensive package deal which included Pyongyang's suspension of its missile exports and joining MTCR, in return for assistance in economic cooperation, international financing, and a Clinton-Kim Jeong-il summit meeting for the first time (Interview with a junior official of Ministry of Foreign Affairs and Trade (MOFAT), London, December 2000). It seems clear that North Korea has been seeking a safety guarantor for its regime survival by engaging with the US and using the nuclear and missile cards that were the United States' one of top foreign policy issues in the post-Cold War era.

However, the North Korean regime is trying to overcome its total insecurity in the post-Cold War era by approaching the US through its own channels, rather than accommodating South Korea (*tongmibongnam* policy). North Korea's recent cooperation with the U.S. could be understood in the context of an ever-growing challenge from the South in the game of unification. While North Korea has considered both the US and South Korea as sources of threat, that of the US is less than the more pressing threat from South Korea. To deter South Korea's pressure, Pyongyang adopted *tongmibongnam* policy, which means that it has appeased the lesser threat presented by the US through negotiating cooperation, while disengaging from dialogues with the South Korean governments (Park Kyung-ae 1997)

This strategy aimed not only to reduce South Korea's influence in the Korean peninsula, but also to sabotage the political solidarity of the US-South Korea's security alliance. For instance, this strategy was used during the nuclear negotiation process. The nuclear case provided an opportunity for North Korea to initiate its bilateral relationship with the US. Pyongyang obtained direct talks with Washington, and succeeded in achieving its goal of cutting Seoul out of the dialogue, driving a wedge between the US and South Korea. Hence, South Korean President Kim Young-sam accused the US of insufficient consultation and involvement of the South in the nuclear diplomacy, while the US officials often complained about the inconsistency of the South Korean policy, and stated that whenever

Washington got tough, Seoul became concerned and urged a softer approach; when the US talked of compromise, South Korean leaders demanded a firm stance against the North (*Joongangilbo*, 15 June 1993; Mazarr 1995: 139-42). Thus, the nuclear negotiation process provoked severe criticism from Seoul, and prompted hard-liners to launch severe political attacks on the government over its loss of diplomatic sovereignty on Korean affairs.

However, one dimension of North Korean policy is often missed, as analysts tend to focus on the tactical aspect of Pyongyang seeking to drive a wedge between Washington and Seoul (Manning 1998: 146). North Korea's basic objective behind the *tongmibongnam* policy is its own survival rather than an attack on the political solidarity of the US and South Korea.

In sum, North Korea is increasingly cooperative with the US because the North Korean regime perceived the US as a potential supporter of its survival. Even though the US is still North Korea's enemy, along with South Korea, the latter is perceived as the biggest source of threat. Hence, North Korean leaders appease the US, the lesser threat, in order to counter South Korea, the primary threat of its regime survival. In fact, with rapidly growing external and internal insecurity, such as diplomatic isolation, economic crises and even the death of Kim Il-sung in August 1994, the fear of collapse and a fate similar to that of East Germany, was an enormous threat for the North Korean regime to manage, and thus it was reluctant to engage with South Korea.

### **2.3.iii.b Pyongyang's military provocation and brinkmanship**

The above discussion indicated that the North Korean leadership began to find its military endeavours and using brinkmanship tactic, as useful means to preserve its regime. Thus, Pyongyang has purposely raised military tensions to sustain itself both externally and internally. With its deepened legitimacy crisis and economic difficulties, the regime seeks externally to pursue political and economic objectives through military aggression, such as nuclear and missile developments and internally to retain the allegiance of the general population and the military, the backbone of North Korean society.

Given these military endeavours and brinkmanship tactics, North Korea seems to be a 'crazy' and 'irrational' state, but this is rather a risky calculation. North Korea's utilisation of military endeavours and brinkmanship is grounded in its increasing insecurity in the 1990s. Externally, using these tactics in negotiation aimed to obtain as many concessions as possible from the international community. In the nuclear negotiations with the United States, since North Korea is a weak state vis-à-vis the United States, its leadership realised that its options were severely limited. Instead of giving up the initiative to the US, Pyongyang has chosen to pursue the highly risky strategy of playing a 'chicken game' to achieve its policy objectives. North Korea managed to compensate for its weakness by playing a hard ball game of bargaining and negotiation with the United States.

Instead of compromising with the strong, North Korea stood firm and defied world public opinion. The high-risk game of brinkmanship towards the United States was considered dangerous, but was worthwhile as it helped compensate for North Korea's weakness. The specific tactics that Pyongyang employed were crisis-causing, ambiguity, brinkmanship, bellicose rhetoric and propaganda, and these threats were backed by its still strong military power. As mentioned earlier, North Korea's desperate situation in terms of regime preservation in the 1990s forced it to use the military and missile card with brinkmanship to maximise its advantages, and this was necessary for its survival. In fact, in the nuclear negotiations with the United States, Pyongyang realised that it had no alternative but to engage with the United States in direct bilateral negotiations. Whatever may have been the original motives, Pyongyang subsequently discovered that the nuclear card was a valuable instrument for its external policy because nuclear development was taken seriously by the United States (Kihl 1998).

Internally, Pyongyang's concern with control over public discontent is also likely to have played a role in Pyongyang's military aggression. The current North Korean leader, Kim Jeong-il has faced unprecedented political and economic challenges in the 1990s, especially after the death of his father, Kim Il-sung. Under these circumstances, the North Korean regime might need to build a mythology around Kim Jeong-il that he has similar leadership to

his father, Kim Il-sung, in order to keep public loyalty and also the support of the military, the back-bone of North Korean society.<sup>31</sup>

For example, a week after the North Korean missile test, on 31 August 1998, The Supreme People's Assembly approved Kim Jeong-il as the supreme military commander. He was then re-elected chairman of the National Defence Commission (NDC) on 9 September, the 50<sup>th</sup> anniversary of the founding of the communist government. Internal publicity and press releases from the Korean Central News Agency (KCNA), North Korea's official media, celebrated the launch and paid tribute to Kim Jeong-il. It is often believed that the North's military aggression and provocation are sometimes related to domestic factors, such as the necessity to appease of its military authorities, and also to sustain the public propaganda around the *juche* ideology and to demonstrate the superiority of the North Korean leadership.

Moreover, it is commonly recognised among analysts in Seoul that the interplay between domestic political structures and the external environment means that "North Korea needs an enemy". In order to appease domestic and economic discontents in the 1990s, the regime focuses public attention on external relations (Interview with South Korean academic, August 1999). The North Korean people have been denied any access to information about the outside world; all television and radio sets must be registered and have fixed channels; representatives of foreign governments, journalists, or other invited visitors do not have freedom of movement. For all these reasons, it is much easier for Pyongyang to fabricate an external crisis for domestic political considerations.

In creating an enemy and an external crisis, Pyongyang often uses bellicose rhetoric or gives information about disputes without presenting the positions of their negotiating counterparts, especially South Korea. In its policy toward South Korea, the regime has to maintain a high level of tension. Being able to point to South Korea as an implacable enemy has been an essential factor in the North Korean regime's control of its people. It tries to maintain an atmosphere of imminent danger of war breaking out by taking provocative

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<sup>31</sup> Because of the importance of North Korean military in North Korean politics, Kim Jeong-il called for 'military first policy' (*sungunchungchi* in Korean) after he became the 'supreme military

actions against South Korea, in order to mobilise the people to rally around the regime. Thus, inter-Korean dialogues and negotiations often fail to have substantial results, because North Korea's goal in participating in them is often for domestic propaganda purposes rather than to sincerely engage in a negotiation process (Kim Choong-nam 2000: 249-51).

#### **2.3.iv North Korea's economic insecurity: vulnerability and opportunity**

It is apparent that North Korea's post-Cold War insecurity has forced it to adopt military brinkmanship as a means to engage with the US and Japan and to ultimately secure its own survival. Indeed, the most immediate threat to its leadership is the sagging economy. As previously argued, economic insecurity, such as the food and energy shortage and a lack of hard currency, could bring about North Korea's internal collapse and possibly its absorption by South Korea. The growing economic gap with South Korea and the event of German unification, with the absorption of socialist East Germany by the West, were all frightening developments for the North Korean leaders.

Threats to the North Korean regime remain predominantly internal. Economic hardship creates social and political instabilities that are perceived as more immediate threats to the regime than the external military pressure. Thus, the North Korean leadership views incremental and limited economic opening, through rapprochement with former enemies, as less risky than continued economic closure and stagnation (Shuja 1996: 95).

There is evidence that North Korea's negotiation with other countries in the 1990s was aimed at opening diplomatic and economic channels, and thus breaking out of the severe economic difficulties. In negotiations with Japan over normalisation, the 'compensation money' issue has been the issue most strongly argued by Pyongyang. This would secure as much as US\$10 billion in the form of economic aid that is vitally important for economic reconstruction (Kim Hong-nack and Hammersmith 2000: 596). Also, the nuclear negotiations first appeared to be a matter originating from North Korea's military insecurity. As negotiations continued, however, the 'nuclear issue' became not only North Korea's means to

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commander' in 1998 in order to gain military support.

restore the balance of military power vis-à-vis South Korea and the US, but also a means to gain economic contacts and concessions from the outside world. The supply of LWR and crude oil, possibly ending the US economic embargo, and attracting investment from Western countries and from international financial institutions became calculated gains in return for the abandonment of its nuclear program. One proof of this was that North Korean officials often complained that, despite their freezing the nuclear program, the US was not keeping its promise of Article II of the AF that “within three months of the date of this document, both sides will reduce barriers to trade and investment and improve economic relations.” Vice Premier and Foreign Minister Kim Young-nam reportedly said that the United States has cheated Pyongyang out of the most important benefits promised under the AF (quoted in Harrison 1997: 63).

Moreover, North Korea seems willing to give up missile exports in return for economic concessions. It is noteworthy that the missile launch came immediately after North Korea’s representatives at the New York negotiations had doubled the price for ceasing missile exports. Given that the AF in 1994 formed KEDO, North Korea hoped that missile development would also generate the same kind of economic benefits from other countries (Kim Tae-woo 1999: 489-90). In talks between Albright, US Secretary of State, and Kim Jeong-il, in October 2000, North Korea hinted that the missile issue could be resolved if alternative resources were provided, such as food, energy, and hard currency. From these events, the important point is that even though North Korea remained interested in nuclear and missile development, it was willing to trade them for economic concessions and to open to some extent to the outside world for economic cooperation.

Most importantly, despite North Korean propaganda and bellicose rhetoric, such as threats to ‘turn Seoul into a sea of fire’, employment of guerrilla forces, including several submarine intrusions towards South Korea, and the attempt to engage with the US and at the same time to exclude South Korea from the negotiation table, it did conduct private and multilateral-level economic exchanges with the South. Beginning in 1989, inter-Korean economic cooperation has been constantly expanding, both in size and quality. As argued

previously, South Korea is now the third largest country in terms of trade volume with North Korea, after China and Japan. The content of trade also diversified from indirect trade to joint ventures and independent ventures by the South, such as the Mt. Kumgang projects. Also, North Korea showed a willingness to resolve several obstacles blocking inter-Korean economic cooperation. For instance, North Korea was willing to talk about allowing companies to make direct remittances, ending double taxation, developing a single currency to be used for inter-Korean trade settlement, and establishing a committee to settle trade disputes, at the North-South ministerial talks on the 27<sup>th</sup> of November, 2000 (*Joongangilbo*, 12 November 2000). Moreover, after the first Presidential summit between the two Koreas, on the 15<sup>th</sup> of June 2000, it was agreed that social infrastructure, including railroads, roads, and ports will be built across South and North Korea. This means that North Korea will accept a huge increase in human and material exchanges between the two Koreas in return for economic benefits (Lee Sang-man 2000: 43-5).

Surely, North Korea is facing the dilemma that it has to adopt at least minimal economic reforms, since opening up to foreign economic influence, both capital and human, was needed for its survival. Various scenarios for North Korea's future, such as minimal opening and collapse, limited reform and muddling through, and Chinese-style reform have been suggested (Kim Choong-nam 2000). Whatever scenario will occur, it is safe to say that, in order to survive, North Korea has to launch at least limited reform and opening. In fact, it has showed some signs of this. With severe economic difficulties, North Korea has had to engage with capitalist countries, and thus to increase its economic vulnerability to outside influence. In turn, this is an opportunity for South Korea, which has not been able to engage with North Korea in political and military issues as shown earlier, to utilise business-track diplomacy to address the post-Cold War North Korean security problems.

## **2.4 Post-Cold War South Korean security and North Korea**

The above examination indicates that the post-Cold War North Korean security problems are quite different from those of Cold War period. As chapter 1 showed, there have been changes



in the understanding of security in terms of threats and the appropriate means to them, in the post-Cold War period. This section addresses the new dimensions of South Korean security in relation to North Korea in the 1990s. Therefore, the purpose of this section is to explicate South Korea's view of its security with regard to North Korea, in terms of threats and means.

#### **2.4.1 North Korean threats**

##### **2.4.1.a South Korea and military threat**

As argued earlier, North Korea's military threats and crises have continued in the post-Cold War period. North Korea's conventional military power is still significant to South Korea's security concern, though North Korea's continuing economic decline has led to a decrease in its military capabilities. However, North Korea still has some two-thirds of its more than one million-man army deployed within 100km of the DMZ, and has significant advantages over South Korea in the quantitative military comparison, not to mention the long-range missiles, the chemical weapons and its ambiguous nuclear status (Olsen 1999: 194-201). While it is doubtful that Pyongyang could sustain a full-scale offensive for a long period of time in the case of another Korean War, it is still capable of causing enormous physical damage to Seoul, the capital of South Korea.

The conservative camp in the South argued that the conventional military threats from North Korea would not disappear until the demise of the totalitarian Kim's family regime. The nuclear and other missile developments in the 1990s initiated by North Korea have strengthened this position. They also believe that the North Korean regime will maintain the status quo policy as its future survival strategy. This scenario is based on the assumption that the Pyongyang regime values most highly its own survival and that it fears that any substantial reforms would have the same consequences as the reforms in the former socialist nations in Eastern Europe. The ruling elite in North Korea may believe that its survival does not necessarily require a change of direction. Under this scenario, Pyongyang might tighten socio-political control by intensifying indoctrination, by continuing the secret programs for weapons of mass destruction, by maintaining tension in the Korean peninsula to sustain the

people's loyalty to the regime, and by adopting minimal economic reforms applicable only to segregated areas, such as the special economic and tourist zones. Thus the current economic hardship of North Korea would not lead to North Korea's openness to the outside world or to a diminished totalitarian political system (Kim Choong-nam 2000: 254-8).

Therefore, the policy of the U.S.-South Korea-Japan alliance toward North Korea should be coordinated to increase its military capability vis-à-vis North Korean military threats, and to bring the North Korean regime down as soon as possible. By operating this continued containment approach; the so called "contained collapse scenario", and by hastening the pace of reunification on South Korean terms through continuing economic sanctions and other forms of pressure designed to debilitate North Korea gradually, the Korean security problem would be solved (Eberstadt 1997; Harrison 1997: 58).

However, this approach is likely to increase the real risk of military conflict in the Korean Peninsula, and the vulnerability of Seoul to be attacked. Most observers of the Korean Peninsula seem to agree that North Korea is now not capable of achieving the reunification of the Korean Peninsula by force. Nevertheless, some observers believe that there is a possibility of full-scale Korean War. The logic is that deepening diplomatic and economic difficulties, and internal and social convulsions, could create domestic turmoil in North Korea, and then the leadership in North Korea might well risk attacking South Korea, especially Seoul (Manning 1997: 602).

Thus, the 'contained collapse approach' of the United States and its allies could create a real risk of North Korean military attack on South Korea. Some observers agree with the prospect of North Korea's 'suicidal war', based on the conventional premise of North Korea's irrationality, given North Korea's past image as a supporter of military aggression and terrorist activities (Roy 1996: 22-4). Others also argue that Pyongyang's elites might believe that even with a poor prospect of winning the war in the Korean Peninsula, North Korea might still attack the South because this is more rational than accepting South Korea's absorption. In the scenario of an implosion, North Korea would not surrender quietly, as did most communist regimes in Europe, because the leadership in Pyongyang fears the fate of war

crime tribunals, and an uncertain future after reunification on South Korean terms. Thus, it is very likely that Pyongyang might launch a military action to be able to bargain for better unification prospects (Manning 1997: 605).

From these assessments, North Korea's military threat towards South Korea in the 1990s has quite different implications from that of the Cold War period. First, in the 1990s, North Korea's military threat does not derive mainly from North Korea's military superiority over South Korea which, for instance, led to the Korean War initiated by North Korea on the 25<sup>th</sup> of June 1950. Rather, the danger of possible military conflicts or full-scale war in Korean Peninsula can be caused by North Korea's total insecurity, and its calculation that attacking the South is a means to overcome its domestic crisis and ultimately regime survival.

Second, North Korea's military threat is no longer just a matter of South Korea's upgrading its military capability, preventing North Korea from unifying the Korean Peninsula by force and defeating the North in the event of war. Here, the implication is that there should be approaches that prevent any inter-Korean military conflict, as a second Korean War could destroy the whole Korean Peninsula.

#### **2.4.1.b South Korea and political and social threats**

As pointed out above, the possible collapse of the North Korean leadership might lead to an "explosion" scenario, in which North Korea launched an attack against South Korea to alter the end game. Whether the collapse of North Korea would bring about a military explosion or not, the prospect of sudden and rapid disintegration of the North would create political and social threats for South Korea.

First of all, the rapid disintegration of the North means that South Korea may have a huge number of refugees from the North. In fact, the number of defections from North Korea has increased in the 1990s. Because of continued economic decline, food shortages, and especially with natural disasters that have occurred since 1995, there has been speculation about the likelihood of massive refugee flows from North Korea. Some argue that given the North Korean government's tight control over its population, in both ideological and military

terms, and the North Korean people's support for the leadership, the current defectors now seeking asylum in South Korea are not likely to become a substantial flood of refugees in the future. However, the following causes for North Korean defections to other countries in 1990s indicate a possible refugee crisis in the region.

While ideology and family were the main reasons for defection until the early 1980s, economic and social conditions have become increasingly important causes in the 1990s. First, North Korea's food shortage could get worse, and thus its people's physical and mental health could decline further. An increasingly large number of North Koreans, particularly those residing in the border provinces of Jakang, Yangkang and Hamkyung, where the food shortage is reportedly the most serious, take the risk of crossing the border into China, despite the fact that the majority of North Koreans remain within one of the world's most tightly controlled countries. The difficult situation at home appears to be worse than the fear of being caught by border patrols.

Second, information and commodities from other countries have flown into parts of North Korea. In the midst of poor economic and social conditions, more and more North Koreans have begun to access information about the economic, political and social conditions of other countries, such as South Korea, and China's relative economic well-being compared with the North. This has provided many North Koreans with further incentives to leave.

Third, illegal economic activities are becoming a source of funding for the flight of many North Koreans. Under the communist structure, private economic activity is not only prohibited, but is portrayed as a political crime. With chronic food shortages and economic difficulties, the people of North Korea are engaging in such economic activities to earn cash, which in turn can lead to further crimes, such as bribery, theft and embezzlement. Those who defected to South Korea, including North Korean diplomats, students and officials, feared forcible repatriation in the North after engaging in 'illegal' economic activities (Lee Shin-wha 1999: 182-6)

Thereby, it seems that the increased number of North Korean refugees will be a heavy burden on countries such as South Korea, China, and Japan. According to one source, up to

300,000 North Koreans have fled into China since 1995. Most of the escapees hoped to accumulate food and return to North Korea to feed the rest of their families.<sup>32</sup> In fact, from the mid 1990s, international concerns related to the possibility of sudden and unpredictable changes, either from explosion or implosion on the Korean Peninsula, have revolved around the likelihood of desperate North Koreans fleeing their country as refugees. According to a report by the Japanese Defence Ministry, if a war broke out in the Korean Peninsula, more than half a million South and North Koreans would become refugees, and 6.9 million would flee to Japan, China, and Russia until the situation would be stabilised (*Chosunilbo*, 12 May 1998).

In the case of South Korea, by the end of 1997, there were over 790 North Korean defectors. In the past, the South Korean government welcomed defectors from North Korea as heroes for the sake of domestic political propaganda. But with the increasing number of those fleeing from the North, the South has begun to accept North Korean defectors on a more selective basis. South Korea also started to make comprehensive contingency plans to prepare against possible mass inflows of refugees from the North. In December 1996, the South passed legislation to earmark funds for refugee settlements, and to build refugee camps to accommodate some 500 people each (U.S. Committee for Refugees 1997).

Whether there will be a full-scale war in the Korean Peninsula, or a massive flow of refugees, due to domestic unrest in North Korea, the clear fact is that South Korea and the region, are generally not prepared for this and would have to face a heavy burden. For instance, of the 790 North Korean defectors into South Korea in 1997, many failed to fit into South Korean society, and are unemployed or working as manual labourers. If thousands more North Koreans were to come to the South, serious domestic disorder may occur, and this will be a crucial social constraint on achieving the reunification of Korea.

In fact, in spite of the denial for the South Korean Embassy in Beijing, the South Korean media reports that the South Korean government has set a quota of only 100 defectors

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<sup>32</sup> The source is the Korean Buddhist Sharing Movement, a South Korean non-governmental organisation who currently helps hungry North Korean People.

from the North per year (Lee Shin-wha 1999: 193). Thus, the nature of the threat posed by North Korea in the 1990s shifted from a focus on its nuclear challenge and military aggressiveness to a focus on problems caused by North Korea's internal instability. Some observers pointed out that policy-makers in South Korea should pay attention to the broader social and cultural context within which North and South Korean relate because so many violent ethnic and international conflicts are fought on the basis of cultural factors. Therefore, without longer preparation for the economic, social and cultural integration of the two Koreas, which, at the moment, share little common way of life and thinking after 50 years of total separation, the North Korean refugee flow to South Korea may become a threat to South Korean society, and ultimately threaten the peace on the Korean Peninsula because of serious misperceptions and the prospects for a successful unification of the two Koreas (Grinker 1999; Park Tong-whan 1999).

Another socio-political threat is the problem of the cost of unification either in case of war or sudden collapse of North Korea. Although the reunification of the Korean Peninsula has been the main goal of the South Korean national security, South Korean policy-makers began to realise that pushing the North to the wall risked either war or the sudden collapse of the North Korean regime, both of which carried unacceptable costs.

The manner of the collapse of East European socialism led some members of the governing elite to reassess their approach to Pyongyang. Instead of promoting the isolation and then collapse of the North Korean system as the way to unification on South Korean terms, they began to see the need to cushion that system from crisis. Particularly, the German case suggested that the costs of unification were likely to be enormous. Indeed, the effect of German reunification on that country's subsequent economic performance has markedly reduced enthusiasm in South Korea for Korean reunification. Also, it could be seen from Romania and elsewhere that the rapid demise of socialism could bring dislocation, discontent and disorder.

Reunification costs have been variously estimated, depending on differing assumptions and scenarios, as covering a range between US\$200 billion and US\$3.2 trillion

(Wolf 1999: 177-81).<sup>33</sup> This huge range is a reflection of ignorance about the relevant real economic conditions in North Korea, the circumstances and timing of reunification, and the differing economic goals that Korean reunification should seek. In any case, because the cost estimates of Korean reunification are so high, relevant states involved in Korean affairs have been reluctant to encourage rapid Korean unification.

In addition, as argued earlier, political and social integration costs are not included in calculations of reunification costs. For instance, the West Germanisation of East Germany in 1990 taught the South Koreans that a rapid integration between the two Koreas without Confidence-Building Measures (CBMs) would generate enormous social costs for the unified Korean state. From the early 1970s the two German states had maintained numerous channels of communication, which included television reception, mail exchange, visits, and so on. Thus, East German residents had been exposed to the Western way of life for a long period of time before the formal merger took place. This contributed the fact that most East German people were ready and willing to become part of West Germany, though some East and West Germans would not be satisfied with the outcome of such integration until much later (Park Tong-whan 1999: 47-8).

However, North Koreans are far from where East Germans were at the time of the unification. North Koreans, in fact, remain in essence removed from firsthand information about the South. The interactions that have taken place since 1989, when Seoul officially opened its door to Pyongyang with a policy of exchange and cooperation, have affected only a small number of North Koreans. Consequently, it is safe to assume that most North Koreans would be unprepared and unwilling to be integrated into the South. However, with the collapse of the Pyongyang regime, North Koreans will most likely come under the jurisdiction of the South Korean state. But there is no assurance that they will become part of the South Korean nation. Thus, the rapid disintegration of North Korea would indeed mean a monumental challenge to the building of a united community of people on the Korean

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<sup>33</sup> For instance, South Korean government's budget for the year 1999 was up to US\$83 billion

Peninsula. Without adequate preparation, the Koreans may even be left with the undesirable option of having to establish a separate regime in the North.

#### **2.4.ii Security strategy**

As argued earlier, concerns over North Korean threats to South Korea are changing; they are now mainly caused by North Korea's uncertain future. Thus, South Korean policy-makers have begun to reconsider the traditional containment policy approach to deal with the North Korean military threat, and to think about comprehensive policy measures to contribute to South Korean security concerns vis-à-vis North Korea. The military power and alliance politics alone was no longer seen as an effective means to prepare for or to resolve various North Korean threats to South Korean national security.

Under the changing international environments discussed earlier, military power has only limited effectiveness in satisfying new South Korean security concerns regarding North Korea. First, even though the combined US and South Korean military power is much stronger than North Korea in terms of sophistication, they were unable to use it as a 'stick' at the negotiation table, because North Korea was still well prepared and had enough fire power to attack the US-South Korea alliance, and also it was eager to use its military power as part of a brinkmanship tactic. Thus, when military power was used as the pressure on North Korea, it only created deeper crisis, as seen in the nuclear negotiation, and failed to generate an agreement with North Korea.

Second, as mentioned earlier, the actual use of military power is not feasible either. It was seen in the nuclear crisis that the United States was not willing to resolve the problem through military attack, like in the Gulf War, while the South Korean government was also concerned about possible full-scale military conflict between the two Koreas because it could bring enormous human and financial costs. Also, military conflict on the Korean Peninsula is not in the interest of other countries, such as China, Japan, and Russia either (Mazarr 1995: 214).



Third, military pressure alone provides only the possibility of North Korea's future implosion or explosion aspects as mentioned earlier. If North Korea were pushed even further into diplomatic and economic isolation by the containment policy based on passive military deterrence of the US and South Korea, North Korea may collapse internally. This could bring political and social problems, such as refugee flows and thus domestic disorder. Moreover, with no prospect of survival for the North Korea regime, it could be regarded as rational for the North Korean leadership to launch a military attack against South Korea.

Finally, the military-oriented confrontational approach does not contribute to South Korea's relational influence over North Korea in the long-term. As seen in the nuclear and missile negotiations, South Korea was left out as the third party, while North Korea engaged only with the US. In fact, the South Korean Kim Young-sam government had demanded several measures for inter-Korean relations, such as exchanges of special envoys, direct dialogues, and the fulfilment of military and political terms of reconciliation promised in the 1991 inter-Korean agreement. However, there was no substantial progress in these matters (Gurtov 1996: 27). Rather, this only brought damage to the traditional US-South Korean alliance as discussed earlier. This result indicates that if North Korean problems were focused on a military agenda, this would be a US centred issue, and South Korea may not have say.

Thereby, in dealing with these security issues, the concept of business-track diplomacy was introduced in chapter 1 to describe a possible, alternative, security strategy for South Korea. As revealed earlier, North Korea's economic vulnerability was due in the 1990s to the severe decrease of economic exchanges with former socialist countries, particularly the Soviet Union/Russia, and to its rigid *juche* economy, which created structural problems in the changing economic environment. Moreover, although North Korea was not willing to talk with the South Korean government about political and military matters, as seen in Pyongyang's *tongmibongnam* policy, it continuously calls for business interactions with the South's private sectors and even for economic aid from the South Korean government. Thus, the economic sector is the most viable opportunity for South Korea to engage with North

Korea, and to increase its interdependence and relational power towards North Korea in the post-Cold War era.

Given Pyongyang's unwillingness to engage with the Seoul government, the business-track diplomacy model can open up alternative forms of engagement with North Korea, through private sector business activities, that can contribute to breaking inter-Korean governmental deadlocks. They can be effective because their energetic but low profile operations help bring about breakthroughs, which governments often fail to achieve. They also have to face fewer inhibitions and constraints than governments in democratic societies do (Chung Ok-nim 1999b).

## **Conclusion**

The main purpose of this chapter has been to document the changes in the nature of North Korean security problems in the post-Cold War era. The North Korean security problem in the Cold War era was dealt with through a policy of containment, enhanced by the balance of military power alliance system. Continuing military threats including nuclear and conventional provocation towards South Korea in the post-Cold War period would seem to support a continuing containment approach towards North Korea.

However, the analysis of North Korea's military behaviour in the post-Cold War era has shown that it is a symptom of the North's total insecurity and its effort to survive. Especially, its economic difficulties in the 1990s provide the interested states with an opportunity to pursue economic engagement with North Korea. Because Pyongyang is willing to accept economic and diplomatic concessions in return for giving up nuclear and missile development, it might be possible that economic engagement would lead North Korea into a set of interdependent relations which might moderate its security behaviour. As discussed in chapter 1, even a heavily militarised Korean Peninsula can be perceived as very much a post-Cold War security problem and one where economic activity can play a role. In line with the theory of economic security policy, as seen in chapter 1, it can be argued that the second type of economic security policy, aimed at a target state's favourable political response in the

event of conflict by imposing economic pressure was not successful in the case of North Korea.

Rather, the prevention of North Korea's implosion or explosion due to economic hardship in the 1990s became the crucial security problem for the involved states, especially South Korea. Thus, the third and forth types of economic security policies can be suitable as the means to address these threats. Hence, having demonstrated both the opportunity and the need for South Korea's use of business-track diplomacy towards North Korea, the next chapter will examine whether the South Korean governments have actually utilised this type of strategy towards North Korea in the post-Cold War era.

## **Chapter 3. South Korean policy change: Consistent engagement**

### **with North Korea under the Kim Dae-jung government**

The previous chapter showed both the need and the opportunity for the utilisation of an economic engagement policy by South Korea to address the post-Cold War North Korean security problems. Hence, this chapter will investigate whether the South Korean governments have devoted political energy into utilising business-track diplomacy towards North Korea in the 1990s.

The following investigation will be based on a comparison between the characteristics of the North Korea policies adopted by two previous governments, the Roh Tae-woo (1988-1992) and Kim Young-sam (1993-1997) governments, and that of the current Kim Dae-jung government (1998-current). It will explore the different views towards and practice of business-track diplomacy towards North Korea, to address post-Cold War North Korean security problems. Thereby, it will argue that the Kim Dae-jung government shows a strong policy-making will towards engaging with North Korea. The analysis will then turn to the extent to which previous South Korean governments have faced policy-making restrictions on engagement, and the extent to which these restrictions have resulted in inconsistencies in the implementation of business-track diplomacy.

#### **3.1 Roh Tae-woo and Kim Young-sam governments' policies towards North Korea**

##### **3.1.i Recognition of the importance of the economic engagement approach**

South Korea's pursuit of economic engagement with North Korea is not a new policy as is often perceived about the "sunshine policy" of the Kim Dae-jung government. In fact, South Korean policy-makers have long been aware of the importance of economic, social and cultural engagements with the North, as the proper means to reduce North-South tensions in the short term, and pursue peaceful reunification efforts in the long term. In particular, the

changing international environment from the late 1980s made South Korean policy-makers rethink their North Korea and unification policies. Between 1988 and 1990, South Korea's increasing international recognition was accompanied by North Korea's setbacks, including the 1988 Seoul Olympic Games, and the demise of the Eastern European socialist countries.

One important factor encouraging a change in South Korean attitudes toward the engagement policy with North Korea was the 1990 reunification of Germany. After the event, South Korean politicians, scholars, journalists and business leaders were eager to observe the German unification experiences through visiting Germany, inviting many Germans to South Korea, and conducting seminars on such topics as 'lessons from the German unification for Korea' (Rhee 1993: 360). Thereafter, South Korean policy-makers seemed to draw a conclusion that they should pursue multi-stage and gradual reunification, along with a contingency unification plan in case of rapid disintegration in the North. In this scenario, a gradual increase of inter-Korean economic and social exchanges is the ideal formula to address post-Cold War security problems because it will encourage North Korea's plans to open up and adopt economic reforms and thus it will reduce the economic cost of the eventual Korean unification (Mo 1994). Therefore, South Korea's pursuit of economic and social interdependence with North Korea has been a key unification policy for South Korean policy-makers in the 1990s.

South Korea's policy of inter-Korean economic exchanges and cooperation actually began as an initiative of the Roh Tae-woo government in 1988. At the time, South Korea was preparing for the Summer Olympics in Seoul. One of the concerns of South Korea and the international community was to deter North Korea's aggressive behaviour toward the South. Thus, South Korea and the United States decided to mitigate North Korean belligerency by suggesting friendly gestures including promising economic benefits toward the North.

On 7<sup>th</sup> of July 1988, South Korean President Roh Tae-woo made a Special Presidential Declaration for National Self-Esteem, Unification, and Prosperity (7.7 Declaration). In this, he proposed South-North Korean economic exchanges and cooperation. South Korea lifted economic sanctions against North Korea in October 1988, and enacted the

Guidelines for Intra-Korean Exchanges and Cooperation in June 1989. These measures aimed at encouraging contacts between the residents of the South and the North and economic transactions between the two Koreas. Later, in 1990, the South Korean government created a more comprehensive legal framework: the Intra-Korean Exchanges and Cooperation Act. This act provided South Korean firms with legal foundations regarding South-North economic exchanges, which became treated as domestic transactions rather than international trade. This act was followed by the enactment of The South-North Cooperation Fund Act in August 1990, in which the South Korean government committed to raise funds that could be used to provide financial assistance for inter-Korean exchanges and cooperation projects (Kim Kyu-ryoon 2000; Choi Gi-woo 1998).

Furthermore, after engaging in a series of high-level governmental talks, the two Koreas finally produced the 'Agreement on Reconciliation, Non-Aggression, Exchanges and Cooperation', in December 1991. The twenty-five articles of the 1991 agreement cover almost the entire range of issues: political relations between the two sides; agreement on non-aggression; the promotion of confidence-building and arms control; economic cooperation and social-cultural exchanges. Especially, Article 15 stated that "in order to promote the integrated and balanced development of the national economy and the welfare of the entire people, the South and the North shall engage in economic exchanges and cooperation, including the joint development of resources, the trade of goods as inter-Korean commerce and joint venture".

In addition, the two Koreas agreed on concrete measures for the implementation of the economic cooperation agreement in September 1992. For example, economic consultations in the Joint Commission for Economic Exchanges and Cooperation welcomed the negotiation of payment settlements for goods exchanges, avoidance of tariffs and double taxation, and the procedures for investment guarantees and arbitration disputes. Thus, most aspects of the economic transactions between the two Koreas were put on the table (MOU 1996). However, the two Koreas halted high-level talks at the end of 1992, and subsequently South-North economic exchanges and cooperation were performed on a limited scale only,

through indirect trade, due to the emergence of the nuclear crisis and also South Korean domestic political considerations at that time, which will be discussed later.

The Kim Young-sam government (1993-1997) also tried to expand inter-Korean exchanges and cooperation. After its inauguration in 1993, it signalled Seoul's intention to pursue an engagement policy towards North Korea. Seoul announced that it would show flexibility in dealing with Pyongyang in areas such as its nuclear program, economic exchanges, and other social and cultural exchanges. Even as the nuclear crisis developed from March 1993, the South continued to have indirect economic relations with North Korea, though there were virtually no new initiatives or improvements in the economic, and cultural and social exchanges between the two Koreas because of the nuclear crisis.

After the nuclear crisis was resolved, in August 1994, President Kim Young-sam announced the Unification Formula for the Korean National Community that included the establishment of a South-North economic community (Kim Kyu-ryoon 2000: 81-3). In November 1994, it legalised the reopening of economic cooperation between South Korean firms and the North, believing that this would bring the two political systems economically closer, and therefore they would be less likely to fight against each other. It would also open the possibility of peaceful coexistence and ultimately unification between the two Koreas. Seoul also tried to secure a leading role in the KEDO project and accepted the financial burden, assuming more than 60% of the total estimated cost for the LWR project, which is believed to be between US\$5 billion and US\$5.5 billion (Kihl 1999a: 127). Furthermore, given concerns about the possible sudden collapse of the Pyongyang regime, and its humanitarian impact on the North Korean people, South Korea has provided food aid since mid-1995. In fact, due to the shift towards this engagement approach towards North Korea, after resolving the nuclear crisis, the inter-Korean trade volume jumped from US\$19 million in 1994 to US\$29 million in 1995, with a growth rate of 53% compared to 7.6% and 4.3% in 1993 and 1994, respectively, during the nuclear crisis (MOU 2001a). Under the Kim Young-sam presidency, inter-Korean trade, including governmental level economic aid, reached

more than US\$300 million in 1997, placing South Korea as the third largest partner in North Korean trade relations.

### **3.1.ii Limited engagement policy: *Jeongkyungyeonkae* principle**

However, while the economic and social engagement with North Korea has undoubtedly been considered an optimal policy by South Korean policy-makers in the post-Cold War period, there are obvious policy-making difficulties which hamper its execution. Put differently, North Korean opening-up and reform and South Korean economic engagement should be the ideal working formula but, regrettably, the confrontation-containment formula has quite often prevailed in inter-Korean relations.

As stated in chapter 2, in response to North Korea's continuing military confrontational approaches and *tongmibongnam* policy towards South Korea, both the Roh Tae-woo and the Kim Young-sam governments adopted a *jeongkyungyeonkae* policy (linking economics with political affairs). As discussed in the theory chapter, both governments' policy towards North Korea was limited to either a 'carrot' or a 'stick' type of economic security policy, and was aimed at changing North Korea's behaviour in the event of conflict. Therefore, Seoul did not pursue a consistent and long-term oriented economic interdependence strategy to promote an environment of economic linkages and other social relations with North Korea, which is identified as the fourth type of economic security policy in chapter 1.

The first reason for adopting the *jeongkyungyeonkae* policy was that the South Korean governments were concerned with North Korea's pursuit of an unchanging 'united front strategy' against the South. Some security planners in the South, especially in the Ministry of National Defence (MND), and NSP still firmly believe that the North's ultimate goal is to "liberate" the South and to implant a socialist revolution through violent means. They also still believe that despite remarkable improvements in the forces in the South, the South is still inferior to the North in its overall military capability even in the post-Cold War period (MND 1991; 1992; interview with a former senior official in NSP, Seoul, August



1999). To deal with these problems, South Korea regarded the effective management of its alliance with the US as the primary means of ensuing security, and initiated forced modernisation and improvement of the armed forces (MND 1991: 184).

At the same time, these concerns impacted on the South's economic interaction with North Korea. First, the two previous South Korean governments continuously disallowed large-scale South Korean investment and technology transfer that had the potential to reconstruct the fragile North Korean economy. The main reason was that rapid and large-scale economic assistance from South Korea and the chaebols (South Korean conglomerates) would only help North Korean military build-up. Thus, Seoul limited both public and private investment to a maximum of US\$5 million per project. It even disallowed the visit of chaebol chairmen to North Korea, despite the fact that South Korean chaebols' business activities with the North could be crucial for North Korea's economic transformation.

For instance, as will be seen in chapter 6, Chung Ju-young, the Hyundai Group Chairman, was eager to conduct large-scale economic developments in the North, including Mt. Kumgang tourism. Over a series of negotiations he reached a basic business agreement with the North, but the Hyundai Group failed to implement any business projects with the North during the Roh Tae-woo and Kim Young-sam governments, because they disallowed the chaebol's investment in the North (Landsberg 1998: 226-7). As seen in Table 3-2, there were no large-scale economic projects with North Korea carried out by the South Korean business community, including the chaebol, until the advent of the Kim Dae-jung government in 1998.

Second, economic engagements during the Roh Tae-woo and Kim Young-sam governments were greatly influenced by overall inter-Korean political and military relations. In other words, Seoul's economic engagement policy towards North Korea was conditional upon North Korea's behaviour, and was not developed as an independent and long-term security policy. Thus, economic pressure along with military containment were often used as the 'sticks' against Pyongyang's confrontational behaviour. As seen in the nuclear crisis case, previous South Korean governments ordered a total ban on all inter-Korean economic

cooperation projects, excluding indirect and processing trade, during the nuclear crisis from late 1992 until the AF was reached in October 1994.

Moreover, as the nuclear crisis became more serious, the US and the South Korean governments were willing to use multilateral economic sanctions against North Korea as one means to deter North Korea's military behaviour, and to encourage the North's compliance with nuclear inspections. Furthermore, the US and South Korea relied more on military pressure in order to coerce North Korea back into the Non-Proliferation Treaty (NPT) regime. The military pressure took the form of a resumption of the Team Spirit Exercise, the US deployment of Patriot missiles, and the movement of a carrier battle group closer to the Korean Peninsula. To be sure, Seoul was undoubtedly opposed to a military solution to the nuclear issue, but the Kim Young-sam government accepted the US employing military pressure for the issue, because it did not want to look weak on policy towards the North Korea.

However, these pressures only increased the prospect of armed conflict in the Korean Peninsula, and failed to make North Korea accept nuclear compliance. Moreover, after the resolution of the nuclear issue, continuing inter-Korean military confrontations made it difficult for Seoul to implement a consistent business-track diplomacy. The Kim Young-sam government, for instance, utilised the North Korean submarine infiltration in the South, in September 1996, as an excuse to threaten to end cooperation in the KEDO project, and to ban inter-Korean economic cooperation, including humanitarian food aid to starving North Koreans, claiming that the Pyongyang regime had overstated the extent of food shortages.

Third, the two previous South Korean governments have pressured other countries not to engage with, or provide economic benefits to North Korea unless North Korea was willing to participate in South-North direct talks. As discussed in chapter 2, normalisation with the US and Japan could be crucial in terms of North Korea's chance to liberalise its economic relations with the West. The economic opening and reforms which may follow from this are actually desirable for South Korea. However, the idea of normalisation was not part of the previous South Korean governments' calculated interests. Concerned over the

'Koreanisation' of Korean problems, and with keeping its post-Cold War strategic advantages *vis-à-vis* North Korea,<sup>34</sup> previous South Korean governments had not welcomed unilateral economic engagement by major powers such as the US and Japan with the North, without meaningful progress between South and North Korea.

The Roh Tae-woo government claimed, through the '7.7 Declaration' in 1988, that Seoul was ready to cooperate with North Korea to improve its relations with the US and Japan. However, after North Korea and Japan announced a major diplomatic breakthrough, having enhanced diplomatic and economic cooperation, when Kanemaru, a prominent Japanese politician, visited the North in September 1990, the Roh Tae-woo government showed great concern. In other words, it wanted to maintain Seoul's superior position to Pyongyang, in order to push North Korea into direct negotiations with South Korea. Thus, the Roh Tae-woo government demanded that Japan should engage in prior consultations with South Korea regarding negotiations with North Korea, and not extend economic cooperation until after real improvement in inter-Korean relations (Quinones 2000: 149-50).

This South Korean policy towards Japanese-North Korea relations was continued by the Kim Young-Sam government and became Japan's external constraint in its engagement towards North Korea. The Kim Young-sam government constantly opposed any improvement in Japan/ North Korean relations or economic contacts, and cautioned Japan not to act unilaterally in regard to engagement with the North.

For instance, the Kim Young-sam government demanded that Japan should not provide rice to Pyongyang until a deal on rice aid talks could be struck between Seoul and Pyongyang in the summer of 1995. Although Japan acceded to South Korea's request, President Kim expressed South Korea's displeasure at Japan's handling of the rice-aid issue, because Japan's offer of 500,000 tons of rice clearly overshadowed Seoul's offer of 150,000. Furthermore, South Korean policy-makers believed that North Korea's defiant acts towards

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<sup>34</sup> The term 'Koreanisation of Korean problems' is borrowed from Ahn Byung-joon (1995). According to Shin Dong-ik (1997: 505), South Korea has adhered to the principle of direct dialogue between the two Koreas to resolve inter-Korean problems, because it believes that the Korean issue should be resolved by Korean themselves. He argues that many Koreans still feel that Korea was the victim of the

South Korea, despite South Korea's rice aid, were caused by Japanese massive rice aid and promises of help in the future.

In an interview with the Japanese *Nihon Keizai* newspaper on 9 October 1995, President Kim Young-sam stated that "it is desirable for Japan to leave the North and South Korean issue to the Koreans. . . Japan's attempts to improve relations with the North ahead of South Korea will not serve Japan's own interest" (quoted in *Hankookilbo*, 1 July 1995). After the 'rice aid incident', President Kim even cancelled a scheduled October meeting with the Japanese Prime Minister Murayama in New York. In an attempt to ease tensions between Tokyo and Seoul, Murayama assured South Korea that South Korea and Japan would consult closely. Japan was willing to try to conduct normalisation talks with Pyongyang without undermining existing Tokyo-Seoul ties to link the pace of normalisation talks to the progress of the inter-Korean dialogue, and to refrain from providing any further economic assistance to Pyongyang prior to the establishment of diplomatic relations before Japan and North Korea (Kim Hong-nack 1998: 127-8).

Moreover, the Kim Young-sam government was also concerned with the normalisation of relations between the US and North Korea. Although it had publicly stated its willingness to help the North avoid economic collapse and to improve Pyongyang's relations with the US, the opposite was true. Seoul reacted sharply to the US's willingness to negotiate with the North on the normalisation issue. It believed that a close US-North Korea relationship would later result in a peace treaty between them without bringing any meaningful progress between the two Koreas. In turn, Washington would be forced to withdraw its troops and to decrease military capacity dramatically in the South.

Some conservative analysts in South Korea even argue that North Korea is pursuing a Vietnamese-style unification strategy. Huh Moon-do, former member of the Chun Doo-whan government, wrote in the South Korean magazine *Monthly Chosun* that "[a]fter the U.S. signed a peace treaty and withdrew its soldiers from Vietnam in 1973, it took only two years and three months until Vietnam was taken over by the Communists". His other concern was

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Yalta arrangements that produced the division of Korea by foreign powers in 1945.

that the normalisation of relations between the two states would likely unlock both the US and Japanese loans and investments. Thus, North Korea could survive without having to engage with South Korea (*Monthly Chosun*, September 1994).

Furthermore, President Kim Young-sam even talked openly of his hopes for the imminent economic collapse of the North,<sup>35</sup> in spite of the fact that his government's official unification policy was peaceful unification through gradual inter-Korean economic and social cooperation. In fact, the 'contained collapse' approach towards North Korea gained ground especially after the death of Kim Il-sung in July 1994, based on Seoul's perception of North Korea's economic crisis and collapse in the near future.

In sum, previous South Korean governments' concerns and calculations regarding the North Korean issue combined the diplomatic isolation approach and the official approach of engagement towards the North in the 1990s. Within this, the Kim Young-sam government was more inclined towards hard-line approach than Roh Tae-woo government. Thus, Seoul's inconsistent economic engagement policy, combined with economic and military pressure, discouraged its private sector's will to engage with North Korea, and vice versa. Moreover, its prevention policy towards Pyongyang's attempts to normalise its relationships with the U.S. and Japan constrained the atmosphere in which North Korea could engage with its formal enemies. Thus, Seoul's overall economic policy towards the North was often used as an instrument of 'coercive economic power' designed to force the North to relate to South Korea and ultimately to enable South Korea to absorb North Korea on its terms in the near future. However, it should be aware that the use of South Korea's economic security policy in this way was counterproductive, given that the North was known to be largely unresponsive to economic pressure. The North was, instead, likely to increase its aggressive military behaviour in the face of threats. More importantly, North Korea's collapse or chaos would create an enormous burden, especially on the South Korean people.

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<sup>35</sup> *New York Times* (8 October 1994) reported that Kim Young-sam argued that the North Korean government was on the verge of an economic and political crisis that could sweep it from power, and that Washington should therefore stiffen, not ease its position in pressing Pyongyang to abandon its

### **3.1.iii Domestic politics: sources of inconsistent economic engagement policy**

As discussed in the previous chapter, the fundamental difficulty preventing deeper economic cooperation between the two Koreas during the previous South Korean governments was North Korea's provocative behaviour and unwillingness to engage with South Korea. It was not difficult to understand Pyongyang's sense of weakness and fear that the North could be absorbed by the much richer South. Thus, North Korea appeared terrified to open its door to the outside world, in particular to South Korea, who was seen as a Trojan Horse wanting reunification on their terms. In addition, the establishment of diplomatic relations between China and South Korea in 1992 increased North Korea's 'absorption phobia.'

However, it was clear that Pyongyang wanted to engage with other former enemies, the US and Japan, especially in the economic field. Also, it was not opposed to selective economic engagement with the South Korean private sector. Thus, the limited economic and social cooperation in that period was not entirely due to the North Korean reticence. According to the *Korea Economic Weekly*, "[t]hroughout the crisis over North Korea's withdrawal from the NPT, Southern companies detected no change in their willingness to do business" (Breen 1993: 3). An equally important factor, which generated severe fluctuations in South Korea's North Korea policy, and limited deeper economic and social interactions between two Koreas, was South Korea's domestic political environment.

For instance, the Roh Tae-woo government's economic engagement policy nearly stopped when the South Korean Presidential Election became heavily contested in Seoul in 1992. The political authority of Roh Tae-woo, increasingly seen as a lame duck president, began to ebb, while the political power of Kim Young-sam grew after he was chosen as the ruling party's (Democratic Liberal Party: DLP) presidential candidate in May 1992. Several months before the presidential election, which was scheduled for December 16 that year, South Korea's hard-line policy, which had been visible since May, became conspicuous. As presented in chapter 2, examples of this were the resumption of Team Spirit Exercises and the

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suspected nuclear weapon program. He explained that compromise might just prolong the life of the North Korean Government.

arrest and announcement of the North Korean espionage ring by the National Security Planning (NSP), in October 1992. The then South Korean Prime Minister, Hyun Seung-chong, issued a letter to his counterpart in the North, requesting an apology for the espionage scheme. In response, North Korea officially disclosed its decision to boycott the South-North Coordinating Commission, thereby deepening the cool down of inter-Korean relations. South Korea in turn banned all inter-Korean exchanges and cooperation including economic, social and cultural activities. While North Korea had long had spies in the South and vice versa, the timing of the NSP's announcement raised questions about the DLP's political intention.

According to Kim Hak-joon, who was the chief Blue House spokesman of the Roh Tae-woo government, before the espionage ring revelation, President Roh had authorised South Korean high level officials to visit North Korea in regard to joint economic development in the North, but the NSP, already under the control of Kim Young-sam, opposed the joint economic development mission, and exaggerated greatly the spy ring arrest incident. Also, the Roh Tae-woo government's economic engagement policy towards North Korea was totally stopped as 1992 Presidential election approached (Oberdorfer 1998: 274). It was interesting to see that both Kim Young-sam's election strategy and the South Korean government's North Korea policy were deliberately orchestrated to be hawkish and Seoul's tough stance toward the North continued until the election ended.

It was reported that Kim Young-sam's overall election strategy was to distinguish his conservative hard-line policy towards North Korea from the rival candidate, Kim Dae Jung's relatively liberal and progressive stance, and thus appeal to the conservative public of the South. In fact, these tactics are not difficult to detect throughout the campaign period. For instance, Kim Young-sam stressed the anti-North Korean rhetoric in his campaign speech on the 9<sup>th</sup> of December 1992, near the DMZ area. He argued that 'for unification, a man of solid anti-communism ideology must be elected as the President' (*Hankookilbo*, 10 December 1992).

The trend of using the North Korean card to appeal to domestic political concerns was clearly demonstrated in the Kim Young-sam government. The timing of the policy shift

regarding North Korea suggests that domestic politics, such as election and public opinion, were the major determinants of the government's North Korea policy. As pointed out before, the starting point of its inconsistency in North Korea policy can be traced back to 1992 when Kim Young-sam, as the DLP's presidential candidate, employed an election strategy which included a hawkish stance towards North Korea. However, after he became the President of South Korea, his government proposed a series of engagement policies with North Korea. It repatriated the long-term North Korean political prisoner, Lee In-mo, to North Korea as requested and promised to pursue a South-North summit (*Joongangilbo*, 1 March 1993).

However, Pyongyang's withdrawal from the NPT turned this engagement policy into a long deadlock between the two Koreas. The conservative media criticised Kim Young-sam's early optimistic attitude towards Pyongyang, including his decision to repatriate Lee In-mo, and negative views prevailed in South Korea's public opinion. The ruling party (DLP) was largely based on conservative support, especially an anti-North Korean posture, and North Korea's withdrawal was powerful enough to shift its policy towards a more hard-line approach. Three days after Pyongyang's withdrawal announcement from the NPT, the government confirmed a return to hard-line policies, suspending all levels of inter-Korean exchanges with North Korea to urge North Korea to abide by the IAEA request (*Chosunilbo*, 15 March 1993).

Moreover, the continuing bilateral negotiations between Washington and Pyongyang on the nuclear issue brought more criticism centred on Kim Young-sam's lack of diplomatic capability, labelling his North Korea policy as a total failure. South Korean Deputy Prime Minister Lee Hong-koo at that time confessed that Seoul's policy stance hardened during the nuclear crisis, and that this actually harmed on early resolution of the nuclear question. He pointed out that the South's tougher stance towards the North was not useful, but it was necessary. It was necessary in the context of South Korean domestic politics because a conciliatory stance towards the North would have created political tension and division in the South (*Washington Post*, 9 October 1994).



As soon as U.S.-North Korean nuclear negotiations were concluded, Seoul shifted its hard-line policy towards a more friendly approach. From late October 1994, the Kim Young-sam government began to pursue massive investment programs in North Korea. The climax of this engagement policy towards North Korea was when 50,000 tons of rice were shipped to the North on 25<sup>th</sup> of June 1995, just two days before the local elections in the South. The ruling party seemed to expect that this historic food aid would give an image of a government successfully managing its relations with the North, and thus serve as an effective election strategy.

However, the Kim Young-sam government's expectation for better relations with North Korea vanished after the flag incident,<sup>36</sup> and the Pyongyang's capture of a South Korean freight vessel carrying rice from Seoul. The public anger against "being slapped for doing good" became serious enough to dramatically affect his popularity. Again, this incident took place several months before a crucial moment in the domestic political cycles, the 1996 April National Assembly election, and the government reportedly decided not to consider any more food aid to Pyongyang before the elections. It also reportedly requested cooperation from Washington and Tokyo to abstain from providing further food aid to Pyongyang (*Dongailbo*, 25 January 1996).

But after the 1996 National Assembly election, the Kim Young-sam government launched a series of engagement policies such as proposing four-party talks, the launch of KEDO construction, and the resumption of food aid. Indeed, the Kim Young-sam government's policy towards Pyongyang shifted several times during its term in office according to its domestic political interests; it was a *naegtang ontang* (erratic) approach. As a result, "inconsistency" has been the focal point of media and legislative criticism with regard to North Korea policy. Kim Yong-ho, a researcher at the Korea Institute for National Unification (KINU), pointed out that President Kim was too sensitive in reflecting public

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<sup>36</sup> The 'Sea Apex' freight, which carried rice for North Korea, departed from South Korea on 25 June 1995. When it entered the North Korean port of *Chongchin*, it was forced to hoist the North Korean flag, although the two Koreas had agreed that no flag would be hoisted when entering the port. Consequently, on June 29 1995, the South Korean government ordered all freighters on their way to

opinion, and did not hesitate to use the North Korean issue as a campaign tool at the time of elections, and so his engagement policy towards North Korea became inconsistent (Kim Yong-ho 1999).

A second domestic source of Seoul's inconsistent business-track diplomacy towards North Korea was the lack of policy belief by the policy-makers with regard to economic engagement policy in the service of South Korean security objectives. It was clearly demonstrated about the Kim Young-sam government that the policy-makers, especially President Kim Young-sam, had no firm belief that a constant and active economic engagement with North Korea would serve South Korean security interests in the long run.

As discussed in chapter 1, under the Korean presidential system, the President's power can be used as the backbone of consistent business-track diplomacy towards North Korea if he or she desires. Kim Young-sam, however, showed no political will to implement this kind of economic security policy continuously. It was suggested that the biggest reason for the Kim Young-sam government's inconsistent North Korea policy can be found in the President's lack of a Korean unification philosophy in terms of when and how unification should be accomplished, and what plan should be applied to reach this goal (Park Kun-young 1999a: 171-4).

Moreover, his lack of policy belief in business-track diplomacy resulted from ambivalent perceptions about North Korea. President Kim Young-sam seemed to have an obsession with achieving a historical breakthrough, the reunification of Korea on his own terms through the collapse of North Korea, though this was not a rational perspective (Kim Yong-ho 1999: 241). James Laney, the U.S. ambassador to South Korea during the Kim Young-sam government, also points out that "Kim Young-sam was a man divided in his own mind. His more rational side says the sudden collapse of North Korea would be a disaster, and he tells us all the things he is doing or is willing to do, to cooperate with North Korea. On the other hand, his emotional side wants North Korea to collapse on his terms, so he can be the first president of a unified Korea" (quoted in Oberdorfer 1998: 373). In fact, at times it

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North Korea which rice on board to retreat (Kim Yong-ho 233-5).

appeared that President Kim Young-sam's position was based on the expectation of a 'speedy collapse and unification by the South of the North', especially after the death of Kim Il-sung in 1994. In fact, one school of thought argued that a collapse of North Korea was not only inevitable, but also desirable. This school holds that to "engage" the North economically is only to prop up a rigid regime and to increase reunification cost (Eberstadt 1997).

Because he was not serious about the need for an economic engagement policy to address the North Korean security problems as a long-term strategy, he was not willing to take personal political risks by pursuing this soft measure consistently. Rather, the lack of policy-making will for comprehensive engagement with North Korea made him react more sensitively to the conservative media and public opinion, and to change his stance toward North Korea frequently. In fact, President Kim Young-sam's lack of belief in the need for active engagement with North Korea for security purposes is in contrast with President Kim Dae-jung's strong beliefs about the effectiveness of consistent engagement with North Korea as viable long-term security policy, which will be discussed in chapter 5 in detail. Thereby, the difference in the decision-maker's beliefs actually influenced the policy-making will of the South Korean government, and in turn resulted in the difference in the degree to which the South's engage with the North.

In sum, the two previous South Korean governments in the post-Cold War era (both the Roh Tae-woo and the Kim Young-sam governments) showed both the positive and the negative aspects of the economic engagement policy towards North Korea as a means for the resolution of the North Korean security problem. They understood the importance of the engagement policy in the long run and that it was the desirable approach towards North Korea. However, the external and internal environments of South Korea made it difficult to pursue the policy of greater and longer-term economic engagement with North Korea consistently. Externally, North Korea's nuclear development and continuing military provocation towards the South gave justification to conservative views in the South. Moreover, Pyongyang's *tongmibongnam* strategy caused Seoul to seek to limit the U.S. and Japan's engagement policy towards North Korea. Internally, the North Korean issue was still

a part of the South's domestic political game, especially at election time. Moreover, the two governments' engagement policy was not designed to produce long-term benefits by developing interdependent relationships with North Korea through economic and social activities but was trying to bring North Korea to the inter-Korean negotiation table.

Hence, in the case of the two previous South Korean governments' engagement with North Korea, their economic security policies often resemble to the second and the third types of policy, the stick and the carrot approaches, as presented in chapter 1. Therefore, the fourth type of economic security policy, aimed at establishing inter-Korean economic and social linkages, and interdependence in the future, was missing.

### **3.2 Active and consistent engagement with North Korea under the Kim-Dae-jung government**

The Kim Dae-jung government (inaugurated in February 1998) has shown a strong commitment to an active economic engagement policy towards North Korea as a core principle for dealing with the North Korean security problem. During its first three years from 1998 to 2000, Kim Dae-jung government has shown a strong policy making will to constantly pursue this engagement policy, called the "sunshine policy", despite several domestic and international difficulties, which will be discussed later. Moreover, Kim Dae-jung's engagement of North Korea is comprehensive and multi-layered, and it is aimed at deeper interdependence with North Korea in order to induce economic opening-up and reform. This analysis looks at three main areas as examples of increased engagement of North Korea; inter-Korean economic interactions, inter-Korean socio-cultural interactions, and the internationalisation of the engagement policy towards North Korea.

#### **3.2.i Economic cooperation**

Enhancing inter-Korean economic cooperation is the most apparent component of Kim Dae-jung government's comprehensive engagement policy towards North Korea. For instance, despite Seoul's economic difficulties, caused by the financial crisis that occurred in late 1997,

it intended to carry out South Korea's obligations to maintain political and financial support for the KEDO project despite the enormous financial burden. It promised that South Korea would finance the bulk of costs associated with the construction of a light water reactor project, which, the Kim Dae-jung government thought, was an important stepping-stone for inducing North Korea's opening-up and economic reform.

The new policy guideline for inter-Korean economic relations, according to the Kim Dae-jung government, is the separation of economic relations from political affairs (*jeongkyungbunri*), which is different from the former South Korean governments' policy of linking inter-Korean economic trade with political and military issues (*jeongkyungyeonkae*). The principle of *jeongkyungbunri* was intended to allow the autonomy of the South Korean private sector in regard to inter-Korean economic activity, even in the climate of continuing political and military tensions in the Korean Peninsula. It means that Seoul will loosen its control of economic activities with the North, and will respect the initiatives of the business community and NGOs to pursue voluntarily economic transactions with the North.

In order to boost the private sector's economic engagement with the North, the Kim Dae-jung government has made efforts to institutionalise economic exchanges and cooperation with North Korea. Following a meeting of the National Security Council (NSC) in March 1998, Lim Dong-won, Senior Secretary of Foreign Affairs and Security (SSFAS) at that time, announced a two-stage approach to liberalising inter-Korean economic relations. The first stage is to give "full freedom" to South Korean businesses to visit, invest in, and move equipment to North Korea "under the current legal framework." The second stage is to revise laws that have "hampered South-North economic and business cooperation" (*Korea Times*, 27 March 1998).

On 29<sup>th</sup> of April 1998, the South Korean government added to and revised the "Measures for the Revitalisation of Inter-Korean Economic Cooperation" which was first established in November 1994 after the end of the nuclear crisis. As seen in Table 3-1, the main provisions of the new version are to abolish completely the size restrictions on investment in North Korea by South Korean firms, and to allow all areas of business, except

strategic and heavy industries, as potential areas for investment. Also, lifting the previous limit of US\$1 million for the transfer of capital goods means that machinery idle in the South, especially after the financial crisis, can be moved to North Korea relatively easily. Thus, the Commission-based Processing Trade (CPT), under which South Korean firms send unfinished or primary goods to North Korea which are then processed and imported back to South Korea, benefited from an expanded freedom, including the free transportation of machinery to North Korea. The Measure also included a legal basis for expanding visits to North Korea. Thus, business leaders, such as the chairmen of chaebols and the heads of economic associations that had not visited the North under both the Roh Tae-woo and the Kim Young-sam governments, had an increased opportunity to conduct business projects with the North (Kim Kyu-ryoon 2000: 82-4; MOU 1998).

**Table 3-1. South Korea's 1998 measures for revitalisation of Inter-Korean economic cooperation**

Items	Previous	1998 Measure
Level of economic cooperation	Governmental control of economic cooperation	Self-regulatory system under the responsibility of business enterprises
Visit of North Korea by Businessmen	Selective permission and the total ban on chairmen of chaebols	Permit upon preparation of invitation papers from North Korea
The period of visit to North Korea by businessmen	One year following approval and single visit only	Three years following approval and multiple visits
Period of handling permission for visit to North Korea	Contact: 20 days Visit: 30 days	Contact: 15 days Visit: 20 days
Value of production equipment allowed to move	Less than US\$1 million	No limit
Size of investment in North Korea per project	Maximum US\$ 5 million	No limit
Investment Items	Light industry and service sectors	All sectors excluding national defence and strategic industries
Number of items with trade restriction	205	178 and gradual expansion of items under overall approval

Source: based on Ministry of Unification of South Korea. Quoted from MOU (1998).

Moreover, the government revised the laws regarding the South-North Cooperation Fund (SNCF) in October 1999, in order to provide small and medium companies which intended to do business with North Korea with loans. In fact, the fund had been used only in government level North Korean projects, such as food aid, and for the reunion of separated families (MOU 2001b). Furthermore, President Kim Dae-jung announced an initiative to build a South-North Economic Community in the New Year Message of 2000. He proposed that “the government-funded research institutes of the two sides start discussing the formation of the South-North economic community” (*Korea Herald*, 4 January 2000). He suggested that the South Korean government was ready to help North Korea to improve its poor infrastructure, including the energy, transportation and agricultural sectors, in a speech called the ‘Berlin Declaration,’ delivered at the Free University of Berlin, on the 9<sup>th</sup> of March 2000 (*Korea Herald*, 10 March 2000). Seoul’s proposal was intended to institutionalise the growing inter-Korean trade backed by political and legal bases agreed upon by the two Korean governments. The government felt that large-scale projects, such as the improvement of North Korea’s infrastructures, which is an important precondition for increasing economic exchanges with North Korea, would not be developed without government-level legal and financial support.

According to the South Korean Ministry of Unification (MOU 2000a), the objectives and processes of building the ‘South-North economic community’ are as follows:

The ‘South-North Economic Community’ sets out to make the overall economy on the Korean Peninsula balanced, prosperous and welfare-oriented. The community rests on the assumption that the two Koreas share common economic interests, which in this process will be met by the increasing volume of South-North trade and cooperation projects, in which South and North Korea will augment the mutual dependence of the two Korean economies. To realise the common economic sphere and deeper interdependence, first, the two Koreas must develop a wide range of industries, spanning manufacturing, agriculture, fisheries, construction, tourism and finance. Second, they must be connected by land, sea, and air routes. Third, institutional and legal bases, such as a transparent payment system, the elimination of double taxation, and mechanisms for dispute settlement, are necessary in order to facilitate smooth economic exchanges.

In fact, the Kim Young-sam government announced in 1996 already that it would pursue the establishment of a Free Trade Area between North and South Korea until 2005 (*Joongangilbo*, 30 December 1998). However, Pyongyang did not consider Kim Young-sam's proposal a serious one at the time because of his inconsistent and coercive North Korea policy. But, North Korea might see Kim Dae-jung's proposal as sincere based on two years of consistent efforts towards engagement with North Korea. Meanwhile, the South Korean government felt less economic pressure two years after the financial crisis, which had started in late 1997, in terms of South Korean government's economic capacity to provide North Korea with financial help; there were hints from the North Korean leadership that they were ready to accept this proposal.

Pyongyang in fact responded with the North Korean leader Kim Jeong-il's decision to have an inter-Korean summit between 13-15 of June 2000, for the first time in fifty years. One of the undoubted factors that helped bring North Korea to the summit table was its need for economic rehabilitation. It seemed that the Pyongyang regime recognised that through expanded economic cooperation with South Korea it could attract Western countries and international organisations to invest in North Korea, and that the Kim Dae-jung government's intention of economic engagement of the North is serious.

The inter-Korean summit provided the momentum for the expansion of inter-Korean economic cooperation, which ranged from private level to large-scale government projects, to socio-cultural venture projects at the NGO level. This summit also included further discussion about joint cooperation on social infrastructure projects in North Korea. The most significant aspect is South Korean government's involvement in inter-Korean economic exchanges. This is based on the idea that large infrastructure projects, and establishing legal and political bases for inter-Korean trade that contribute a rapid rise of interdependence between the two Koreas will need Seoul's political and financial help.



For instance, the summit produced the plans for reconnecting the Kyung-ui (Seoul-Shinuiju) Railroad Line<sup>37</sup> and other land and rail roads across the DMZ, and confirmed a project to build a huge industrial complex in Kaesung in the North. Also, Seoul was seriously studying a plan to supply electricity to North Korea, following an agreement made at the inter-Korean ministerial talks that ended on the 17<sup>th</sup> of December 2000. This expressed North Korea's special interest in South Korea's aid aimed at boosting the North's electricity capacity, since Kim Dae-jung announced the Berlin Declaration. The Kim Dae-jung government, on the other hand, wanted to increase the North's reliance on the South, and to deepen the interdependence between the two Koreas (*Korea Herald*, 28 March 2000).

Furthermore, after the summit of the two Koreas opened the way, the four-point agreement on economic cooperation was reached at the next high-level official talks in Pyongyang, on the 11<sup>th</sup> of November, 2000; it provided for investment guarantees, settlement of disputes, clearance of accounts and avoidance of double taxation. Particularly, the agreement on investment guarantees, the most significant issue that had previously tied down the negotiations, grants most favoured nation (MFN) status to South Korean firms doing business in the North. In fact, South Korea insisted that its firms be given domestic operation status in North Korea, which the North strongly refused. Also, the agreement on investment guarantees stipulated that North Korea may not confiscate South Korean capital, and that it will allow business owners to freely send profits to the South. Also, with the agreement on the clearance of accounts, South and North Korean firms will be able to make direct money transfers using banks in the peninsula, instead of having to use a bank in a third country, as was the case before (*Korea Times*, 15 November 2000).

Thereby, during the first three years of the Kim Dae-jung government, from 1998 to 2000, inter-Korean trade increased from US\$222 million in 1998, to 333 million in 1999, and 425 million in 2000, despite South Korea having a financial crisis and domestic economic

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<sup>37</sup> This railroad is able to connect to Europe via Trans-Siberian Railway (TSR). The Korean Transport Institute (KOTI) of South Korea pointed out its economic benefits for the two Koreas: by using rail instead of current marine transport, transportation costs will be reduced one fifth of current cost, and the time would be cut to about a third. It is estimated that yearly transport costs can be cut by around

difficulties. In fact, any setback in inter-Korean trade volume during this time would not have been caused by the inter-Korean political and military issues, but by the direct impact of the Asian financial crisis. This was contrary to the developments under the Kim Young-sam government, during the 1993-94 nuclear crisis, and in 1996, when North Korea organised a submarine incursion into the South.

Moreover, under the Kim Dae-jung government, the scale of inter-Korean business has greatly increased. During 1990-1997, under previous governments, seven inter-Korean business projects were approved, including the KEDO project. However, as shown in the shaded part of Table 3-2, eight joint business projects were approved in only three years, from 1998 to 2000, under the Kim Dae-jung government. Also, the scale of approved business projects soared from US\$16.27 (130.57 when including KEDO project) million under the previous governments, to US\$411.1 million under the current government.

The Kim Dae-jung government's business-track diplomacy differed from previous governments in its calm reaction to inter-Korean tensions caused by North Korean military provocation. As seen in the previous section, the Kim Young-sam government reacted very strongly to North Korea's military provocations, and often used them for domestic political purposes. The opposite was true in the Kim Dae-jung government. This was evident in the way in which the infiltration of spy submarines in 1998 and the naval clash between the two Korean navies in the West Coast of Korean Peninsula in June 1999 were handled.

For instance, in June 1998, a North Korean midget submarine was caught on the East Sea shore of the South with nine bodies of suicide victims on board. Military investigators concluded that it was on a spying mission. While South Korean officials, including President Kim Dae-jung, were trying to downplay the seriousness of the submarine infiltration, domestic criticism was widespread. Apparently reflecting the views of conservative Koreans, the daily newspaper *Chosunilbo* said "the Kim Dae-jung's "sunshine policy" was put to a serious test... Even though he would try to maintain a policy of *jeongkyunibunri* in relations with North Korea, it might be very difficult for him to keep its engagement policy intact,

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US\$25 million (quoted from Centre for Reunification Economics 2000: 33-4).

should North Korea continue to cling to its deceptive two-tiered policy towards South Korea” (*Chosunilbo* 23, June 1998).

These domestic criticisms, especially from conservative media groups and the opposition party, have been voiced every time North Korea engaged in military provocations. In spite of frequent provocative incursions of armed North Korean spy ships into the South, unlike previous South Korean governments, President Kim Dae-jung stuck to the principle of *jeongkyunbunri*. Thus, it gave encouragement to the private sector not to stop business activities with North Korean partners.

**Table 3-2: Approved business projects for inter-Korean economic cooperation**

Company	Business Specifics	Amount (US\$ Mil.)	Date of Approval
Daewoo	9 projects including jackets and bags	5.12	5 October, 1992
Green Cross co.	Medicine	3.00	15 September, 1995
Taechang	Develop spring water	5.80	27 April, 1996
KEDO	The light water reactors project	114.30	19 July 1996
Mihung Food Processing	Collect and process marine products	0.15	22 May, 1997
Taeyoung Fisheries/LG International	Farm and process scallop	2.00	14 October, 1997
Aju Communication	Produce printed materials and TV ads	0.2	14 November, 1997
Dooray Village Farming Management association	Establish a jointly operated farm	8.0	8 April, 1998
International Foundation	Corn Pursue joint research for the development of a new variety of super corn	1.1	18 June, 1998
Hyundai Marine/Hyundai Engineering & Construction/Asan	Merchant & Hyundai Engage in the Mt. Kumkang tour and development	100.33	6 August, 1998
Korea Land	Develop real estate and run a department store	0.6	28 August, 1998
Baeksan Industry	Produce mushrooms	0.208	28 October, 1998
Hyundai Electronics/Korea Telecom/ Onsei Telecom	Joint communication business for Mt. Kumkang tour	0.13	11 November, 1998
Pyonghwa Motor co.	Auto-repair and assembling	300.00	31 August, 1999
Samsung Electronics	Joint development of software	0.727	13 March, 2000

Source: based on Ministry of Unification data (MOU 2000b).

Note: the shading part indicates the projects approved by the Kim Dae-jung government

### 3.2.ii Socio-cultural exchanges

President Kim Dae-jung's comprehensive engagement policy towards North Korea is designed to help North Korea's opening-up and reform through more contacts, dialogue, and cooperation between the two Koreas. Moreover, Seoul's engagement with the North is aimed at exploring common interests and creating a common Korean identity between North and South Koreans. As pointed out in chapter 1, business-track diplomacy is the exchange mechanism used as a bridge to make socio-cultural relationships between states and peoples. Thus, socio-cultural cooperation, including contacts, visits, humanitarian aid and socio-cultural business project between the people of the two Koreas, is an important tool to achieve this South Korean goal.

However, like inter-Korean economic cooperation, the socio-cultural field had been affected by the previous South Korean government's *jeongkyungyeonkae* policy. Previous South Korean governments monopolised inter-Korean interactions and channels, and used them as a political measure to boost regime popularity, and mitigate against North Korean military provocations. Moreover, the limits of socio-cultural cooperation were caused by Seoul's worries regarding North Korea's unchanging 'united front strategy', in which Pyongyang tried to create a united front with progressive political forces in the South to stage a revolutionary movement.

However, the Kim Dae-jung government relaxed some of the procedures on various private sector activities towards North Korea. It simplified procedures for South Koreans to visit North Korea, relaxed the basis for approving socio-cultural exchanges and projects, and allowed Non-governmental organisations to give economic aid to North Korea through their own channels. These measures were designed to encourage both individual and civilian organisations to contact their North Korean counterparts, and thus establish diversified multiple channels between the two Koreas. At the same time, the political democratisation and social pluralism that have taken place over the last decade in South Korea have led to the

strengthening of civil society. The demand of the civil society to participate in North Korean issues has been enough for Seoul to utilise civilian activities as business-track diplomacy.<sup>38</sup>

**Table 3-3. South Korean people visits to North Korea by years**

Unit: number of cases (Number of People)					
Years	Applied	Approved	Rejected & % of Rejection		Accomplished
1989	1 (1)	1 (1)	-		1 (1)
1990	7 (199)	6 (187)	1 (12)	12.3%	3 (183)
1991	12 (244)	11 (243)	-	5.4%	10 (237)
1992	17 (303)	8 (257)	10 (47)	9.0%	8 (257)
1993	6 (21)	5 (19)	1 (2)	2.8%	4 (18)
1994	12 (78)	7 (54)	-	2.1%	1 (12)
1995	64 (563)	58 (543)	9 (31)	4.4%	52 (536)
1996	50 (249)	35 (170)	3 (19)	7.3%	28 (146)
1997	156 (1,194)	149 (1,172)	3 (9)	2.2%	136 (1,015)
1998	402 (3,980)	387 (3,716)	2 (12)	0.3%	340 (3,317)
1999	886 (6,199)	862 (5,997)	2 (5)	0.2%	822 (5,599)
2000	865 (8,070)	845 (7,737)	2 (8)	0.7%	804 (7,280)
<b>Mt.</b>	'98	29 (14,228)	26 (12,812)	- (9)	23 (10,554)
<b>Kumkang</b>	'99	265 (163,623)	262 (163,178)	- (116)	258 (148,008)
<b>Tourists</b>	'00	396 (228,860)	396 (228,510)	- (340)	396 (212,247)
	Total	690 (406,711)	684 (404,500)	-(465)	677 (370,809)

Source: based on Ministry of Unification data (MOU 2001a).

Note: the shading part is under Kim Dae-jung government

Firstly, thanks to the Kim Dae-jung government's promise of active engagement towards North Korea, applications to visit North Korea by South Koreans have sharply increased during this period. As shown in Table 3-3, under the two previous South Korean governments, total South Korean visitors to the North amounted to 2,405 for the nine years between 1989 and 1997, while the number rose to 3,317 in 1998, 5,599 in 1999, and 7,280 in 2000, and thus to a total of 12,596 during the three years. In addition, 370,809 South Korean

<sup>38</sup> According to a survey on the issue of inter-Korean cultural exchanges in 1990, many people pointed out the need of limiting political considerations, of increasing the role of the private sectors rather than the government, and of a change in government policy towards opening up for North Korean culture. All of these were recognised as important requirements for enhancing inter-Korean socio-cultural

tourists visited Mt. Kumgang in North Korea from 1998 to 2000. Moreover, despite the drastic increase of applications for contacts with North Koreans after the current regime took office, the rejection ratio of the applications has greatly decreased. This is evidence of the Kim Dae-jung government's political support for inter-Korean personal exchanges.

**Table 3-4. Inter-Korean socio-cultural cooperation projects**

South organisations	Korean	Contents	Amount of Money (US\$ mil.)	Approved Date
South Korean Table Tennis Association		To make unified Korean team to participate in the World Table Tennis Game (24/04-06/05, 1991)	0.7	21/03/91
South Korean Olympic Committee		To make unified Korean team to participate in World Youth Football Game (27/05-04/06, 1991)	1.4	01/05/91
Unification and Cultural Institute		Inter-Korean joint research on North Korean historical sites	0.06	10/12/97
Sport Art		Producing TV Video for North Korean historical and cultural sites	0.6	29/04/98
Korean Photography Association		Inter-Korean photo exchanges and publishing	0.16	29/04/98
Younbun Science and Technical College		Establishment of an science and technical college in Rajin and Sonbong area	5	05/06/98
Korean Welfare Foundation		Establishment and management of pharmacy factory and hospital	2.4	05/06/98
Korean Cultural Network Institute		Establishing Inter-Korean Cultural data base	0.3	20/06/98
CAN Korea		International Music Festival for Peace in Seoul and Pyongyang on 1999	1	16/04/99
SN21 Enterprise		Korean Unification Music Festival in North Korea	0.6	05/08/99
Hyundai Asan		Construction of indoor gymnasium in Pyongyang	34.2	20/09/99
Kyemyong Production		Pyongyang sport art institution's performance in South Korea	0.5	22/09/99
Uinbang Communication		Mt. Kumgang international car rally for Unification	1	11/11/99
Neovision		Joint production of Television documentary	0.5	03/02/00
NS21		Pyongyang sport art institution's performance in Seoul	5.5	23/05/00
Korean Cultural Network Institute		North Korean culture and Art Business	0.5	14/07/00
Siszen		Opening of site in the South of pro-North Korean site (Chosun infobank)	0.6	01/09/00
Korean Culture Foundation		Kumgangsan Art Institute's performance in the South	0.1	29/11/00

Source: MOU (2001a).

Note: the shading part is under Kim Dae-jung government.

Secondly, inter-Korean socio-cultural cooperation projects have greatly increased during the current government. Since permission for cooperation projects was first issued to allow the formation of a unified Korean team to compete in the 1991 World Table Tennis Games in Japan, a total of 18 organisations received cooperation-project approvals in the social and cultural area at by the end of 2000. As shown in Table 3-4, 15 out of 18 projects for inter-Korean socio-cultural cooperation have been approved during the first three years of the Kim Dae-jung government. Also, socio-cultural areas have been diversified from unified Korean teams in international sports competitions, to culture, art, media, education and cultural joint ventures such as the construction of an indoor sport centre, and of a North Korean cultural database. According to an official of the MOU, the increase in inter-Korean socio-cultural projects, and in the opportunity for both South and North Korean participants' to exploit common interests through these projects, should be credited to Seoul's liberation of the private sectors' role in engagement policy towards North Korea (Interview with a senior official of MOU, Seoul, February 2001).

Thirdly, Seoul gave the private sector greater leeway in dealing with the North in the provision of humanitarian aid. In contrast to the previous governments' insistence that all North Korean aid go through the Korean National Red Cross, controlled by the government, Seoul announced on the 18<sup>th</sup> of March 1998 that leaders of private organisations could visit the North for consultation on aid with North Korean counterparts. Also, it approved direct channels of aid outside the Korean National Red Cross in February 1999 in order to increase the capacity and efficiency of the private sector aid to the North (MOU 1999).

Moreover, long-term humanitarian programs have been supported by government financial assistance through the South-North Korean Cooperation Fund (SNCF). The South Korean government simplified the process of aiding North Korea, shortened the preparatory stage of aid programs, and thus facilitated NGOs' contacts with North Korean counterparts. The result has been a rapid growth in the levels of activity of South Korean NGOs and in the number of contacts with North Korea. The number of organisations that can provide aid directly increased to 13 during the Kim Dae-jung government, from the Korean National Red

Cross as the only channel. Their independent aid programs contributed to an increase in the transparency of the distribution process, and to a specialisation of aid in each individual organisation in the North. These aid programs have developed over time from one-time relief assistance to continuous assistance by securing a base of operations in the North in various fields (MOU 2000c). For instance, World Vision, a South Korean NGO, operates six noodle factories in the North and provides food for 30,000 children every day. Oh Jae-sik, chairman of World Vision, said that “The North Korean assistance project should be aimed not only at emergency aid programs but also long-term development programs, and the Kim Dae-jung government understands its importance to his sunshine policy” (quoted in *Joongangilbo*, 8 June 2001).

### **3.2.iii Internationalisation of the engagement approach towards North Korea**

The other North Korea policy change under the Kim Dae-jung government with regard to enhancing economic engagement policy is encouraging international community to participate in engagement policy toward North Korea. This effort by the Kim Dae-jung government is based on the perception that the current international environment in the Korean Peninsula maintained the Cold War structure, despite the trend towards globalisation in the post-Cold War era. There still exists long-lasting hostility and mistrust, not only between the two Koreas, but also between the U.S. and North Korea, and Japan and North Korea. If these great powers were to engage with the North, this would increase the likelihood of North Korea’s opening up and reforming.

Thus, the maximisation of international collaboration is critical, not only because it can facilitate conflict management in the Korean Peninsula, but also because it can help North Korea to land softly. For the management of the Korean Peninsula, Seoul has stressed the continuation of the Four Party talks. It has also proposed the “two plus four” (two Koreas plus the US, Japan, Russia, and China) formula, and the establishment of a Northeast Asian security cooperation regime in order to shape a new security environment conducive to tension reduction as well as peace and security building.



More importantly for North Korea's change towards economic opening and reform, the Kim Dae-jung government has been calling for two practical measures to be taken: North Korea's diplomatic normalisation with the US and Japan on the one hand, and the creation of global support favourable to North Korea's economic reform. For the latter objective, Seoul has actively supported North Korea's joining of the international financial and multilateral organisations such as the International Monetary Fund (IMF), the World Bank, the Asia Development Bank (ADB), and Asia-Pacific Economic Cooperation (APEC), to facilitate North Korean access to international capital. President Kim Dae-jung, for instance, has appealed to Asia-Pacific countries to economically engage North Korea and to help North Korea to join APEC and ADB through consultation with APEC members (*Korea Herald*, 31 March 2000). Also, the Kim Dae-jung government has consistently sought the engagement of the other states towards North Korea. As a result, it helped, for instance, to widen the scope of EU countries' engagement with North Korea (Drifte 2002). Seoul's call for international support for engagement with North Korea was also aimed at encouraging the North to accept outside assistance to rebuild its difficult economy.

Meanwhile, for the former objective, Seoul has been trying to persuade North Korea, the US, and Japan to normalise relations with each other. For instance, in the June summit of 1998 with the US President Clinton, President Kim Dae-jung showed his intentions by urging him to adopt a more forthcoming policy towards North Korea, by easing the economic sanctions that the U.S. has maintained for nearly half a century. He even asked the U.S. and Japan to promote economic relations, and ultimately to normalise relations with North Korea. One US official of Department of State pointed out this "is almost like role reversal, we have become like previous South Korean administrations, where they did not want to have anything to do with the North. Now, the new South Korean government wants to change... and we are stuck in the past" (quoted in *Washington Post*, 12 June 1998: A3).

Moreover, Seoul has sought to focus Tokyo on intensifying its diplomatic relations with Pyongyang. For instance, in a meeting with Japanese Prime Minister Obuchi Keizo on 19-21 March 1999, President Kim Dae-jung reconfirmed that he hoped Washington and

Tokyo would engage in direct exchange and cooperation with Pyongyang, instead of passing through Seoul (*Korea Herald*, 21 March 1999). President Kim Dae-jung has maintained this position throughout his presidency up until April 2002 when this dissertation was submitted. Also, President Kim Dae-jung reiterated his call on North Korea to make use of the United States so that it can become more stable and prosperous, stating that “Pyongyang has little reason not to take advantage of the United States at a time when Washington grants China its most favoured Nation status and assists in Beijing becoming a member of the World Trade Organisation” (quoted in *Korea Times*, 28 June 2000).

However, an international mood for favourable to engagement with North Korea has not been established. As will be discussed in the next chapter, tensions between the US and North Korea have continued because of North Korea’s military actions, such as the test-launch of a long-range missile, ‘Taepodong-1’, continuing export of missile and technologies to ‘rogue states’, and the suspicion over an underground nuclear site at Kumchangri in North Korea. Moreover, the US has reacted to North Korean manoeuvres essentially on a case by case basis, which contribute to increased tensions in the Korean Peninsula, while conservatives in the US argued against the validity of its engagement or soft-landing policy toward North Korea.<sup>39</sup>

With this kind of symptomatic US reaction, Seoul called for a more comprehensive and long-term oriented approach towards North Korea. For instance, Hong Soon-young, the South Korean Minister of MOFAT, argued in 1999 that “given North Korea’s economic needs and growing isolation, the US now exerts the greatest influence on North Korea, and it should deal with it by rigor and caution, not overreaction or generalisation” (Hong Soon-young 1999: 11).

Furthermore, to enhance Seoul’s continuing engagement policy and to prevent a US hard-line policy towards North Korea, President Kim Dae-jung has suggested the need for a

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<sup>39</sup> The conservative Republican dominated US Congress is sceptical about the effectiveness of the engagement policy towards North Korea. Thus, the former Secretary of Defence, William Perry, has been named as ‘North Korean Policy Coordinator’ in October 1998 to review the North Korean issues and report to the Congress.

‘package deal’ solution as a means for dismantling the Cold War structure in the Korean Peninsula. Under the proposal, a grand compromise can be implemented between Washington and Pyongyang. The main point is that, to resolve North Korea’s nuclear and missile issues, the US and Japan should lift economic sanctions, speed up the development of economic relations rather than taking symbolic steps, and also finally normalise relations with Pyongyang. Also, these measures are to be taken as a package deal<sup>40</sup> (*Korea Times*, 7 May 1999).

Therefore, along with the Kim Dae-jung government’s strong intention towards active engagement measures with North Korea, it also wanted to use the framework of trilateral cooperation and among the US, Japan and South Korea regarding North Korea policy in a different way. While these three countries have been consolidating their continuing military cooperation against possible threats, including North Korean nuclear and missile development, the Kim Dae-jung government has devoted its political energy into consolidating international support for a comprehensive engagement policy towards North Korea. This is quite different from previous South Korean governments that sought a framework for checking and balancing the U.S. and Japan’s relationships with North Korea in the context of the inter-Korean relationship. The major points of comparison between the engagement policies of previous South Korean governments and Kim Dae-jung government are summarised in the following table.

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<sup>40</sup> These views were expressed in an interview with Cable News Network (CNN) on 5 May 1999.

**Table 3-5. Comparison of engagement policies of previous South Korean governments and Kim Dae-jung government**

Roh Tae-woo and Kim Young-sam governments (1988-1997)	Kim Dae-jung government (1998-current)
- <i>Jeongkyungyeonkae</i> policy (links inter-Korean economic, social, and cultural activities with inter-Korean political and military affairs).	- <i>Jeongkyungbunri</i> policy (Separation economic, social and cultural activities from the inter-Korean politics).
-Use of military and economic pressure to deter post-Cold War North Korean military provocation.	-Relatively calm reaction to post-Cold War North Korean military provocation and no use of economic pressure.
-Object to the North's normalised relationships with U.S. and Japan, and seek to prevent international economic engagement toward North Korea.	-Encourages the U.S. and Japan to normalise the relationships with North Korea, and supports North Korea to join in international financial organisations.
-Ban on the large-scale inter-Korean economic projects and on chaebol leaders' visits to the North.	-No restriction on the scale of inter-Korean economic projects and encourages chaebols to initiate inter-Korean economic cooperation.
-Government's control over socio-cultural and humanitarian aid and activities	-Diversifying and enlarging private channels with North Korea.

## Conclusion

The above analysis has shown different North Korean policy emphases since late 1980s, though all the South Korean governments recognise the need of engagement of the North in the post-Cold War era. On the one hand, previous South Korean governments adhered to the principle of political and economic linkages (*Jeongkyungyeonkae*), and thus limited not only South Korea's inter-Korean activities, including economic, social, and cultural cooperation, but also hampered international efforts to engage with the North. Moreover, they did not support the normalisation of relations between North Korea and the US and Japan because Seoul feared it would lose its strategic superiority and the chance to bring Pyongyang into a direct dialogue.

On the other hand, the current Kim Dae-jung government has helped to boost the South's various private actors' activities with North Korea by adopting the *Jeongkyungbunri*

principle. Moreover, internationally, the current government understands that the critical element to peace in the Korean Peninsula is to dissolve the continuing Cold War structure in this region by improving the relationships between the North and the outside world, especially the US and Japan. Therefore, this chapter has proved that there has been a change towards active and consistent engagement policy under the Kim Dae-jung government.

Most significantly, the Kim Dae-jung government has gone beyond the recognition of the need for Seoul's engagement measures towards North Korea and has actually shown a strong policy-making will to implement business-track diplomacy towards North Korea. Hence, having demonstrated the existence of the condition for the implementation of business-track diplomacy as given in chapter 1 - namely, the policy-makers' will for the actual mobilisation of the economic capability in the service of security objectives - the next two chapters will investigate the various variables that might have influenced the manifestation of a strong policy-making will and thus the North Korea policy changes under the Kim Dae-jung government.

## **Chapter 4. The impact of international and domestic factors on Kim-Dae-jung government's policy shift**

The previous chapter demonstrated that the current Kim Dae-jung government has shown strong policy-making will to implement an active and consistent engagement policy towards North Korea when compared with previous South Korean governments. Thereby, this chapter and the next will investigate the 'why' question of the Kim Dae-jung government's policy shift towards active engagement with North Korea. As the theory of FPA outlined in chapter 1 indicates, there should be a comprehensive examination of exactly 'why' foreign policy changes towards North Korea have occurred under the Kim Dae-jung government. While chapter 5 will examine the impact of beliefs held by President Kim Dae-jung upon South Korea's policy-making towards North Korea, this chapter considers both international and domestic variables as possible policy inputs that could have influenced this policy shift under the Kim Dae-jung government.

First, the international structure, which has traditionally been an important factor in the formulation of Seoul's foreign policy, in regard to the North Korean security threat, and especially so in the Cold War era, will be discussed. Hence, this thesis looks at the interactions and behaviours that occurred between states such as two Koreas, the US and Japan. Second, this thesis will look at South Korea's macro domestic factors, such as the development of democratisation and the advent of the financial crisis in South Korea, and also micro domestic factors such as various domestic actors that might influence Kim Dae-jung government's policy-making will towards the utilisation of an active engagement policy with North Korea.

#### **4.1 External factors**

If the international environment is to be an important input in South Korea's active engagement policy under the Kim Dae-jung government, then this policy is related to two main external environmental changes in the late 1990s. As discussed in chapter 3, one limitation on Seoul's greater engagement with North Korea was caused by North Korea's *tongmibongnam* policy and military aggressiveness towards South Korea, though Seoul often used these for domestic political purposes. Thus, North Korea's more moderate policies towards South Korea, such as increasing economic opening up and decreasing military provocations, should be seen as positive conditions for Seoul's active and consistent engagement policy towards North Korea.

The other important change is that in order for Seoul to pursue a consistent economic engagement policy toward North Korea, international efforts to engage with North Korea should be enhanced. Put differently, as Pyongyang's 'southern policy' indicates, it has been willing to engage with the US and Japan both economically and politically as a survival strategy. Thus, if the US and Japan, which have been the main enemies to the North, and are economically powerful states, show strong political will towards engagement with North Korea, this would be an important source of momentum for Seoul's use of business-track diplomacy.

##### **4.1.i North Korean factor**

###### **4.1.i.a Continuation of *tongmibongnam* policy and military aggressiveness**

During previous South Korean governments, North Korea had shown its military aggressiveness and utilised the tactic of avoiding the South Korean authorities in political and military dialogues. This hampered Seoul's deeper engagement policy toward North Korea at that time. Unfortunately, this North Korean behaviour continued both before and after the advent of the Kim Dae-jung government in February 1998.

In contrast to their positive attitude towards the US, the Kim Jeong-il regime was reluctant to talk with the South Korean government, until the two Koreas agreed to have a

summit in June 2000. There had been at that point no single inter-Korean governmental direct talks since 1994. The only governmental-level contact between the two Koreas was in the four-party talks, jointly proposed by South Korea and the US in April 1996. Although the talks created a dilemma for Pyongyang, considering North Korea's strategy of negotiating with the US while isolating South Korea, Pyongyang had to accept the four-party talks in order to keep its relations with Washington cooperative. With the acceptance, however, Pyongyang could not avoid a formal dialogue with the South Korean government. In 1997, North Korea at last participated in the December conference for the four-party talks. However, this did not mean that the North had retreated from its *tongmibongnam* strategy. The Kim Jeong-il regime insisted on to the inclusion of the issue of the withdrawal of the US forces from South Korea and of the US-North Korea peace treaty on the agenda for the talks. Pyongyang made it clear that it would pursue issues in its bilateral negotiations with the US, even within the framework of the four-party talks.

Moreover, less than one year before Kim Dae-jung became South Korean president, the defection of Hwang Jang-yop, the architect of *juche* ideology and former private tutor of Kim Jeong-il, to South Korea, in February 1997, enormously increased inter-Korean tension. It must have embarrassed the North Korean leadership. In fact, Pyongyang issued a warning of terrorism, not only against Seoul but also Beijing, to which Hwang had fled.

After the election of Kim Dae-jung as President of South Korea at the end of 1997, North Korea refrained from slandering the new government and took a "wait and see" posture (*Nodong Shinmun*, 1 January 1998). Probably encouraged by Kim Dae-jung's premise of dovish-looking North Korea policy, Pyongyang participated in the vice-ministerial conference for possible fertiliser aid from Seoul in Beijing in April 1998. These inter-Korean direct talks were significant because they took place almost three years and nine months after the previous contact for the first inter-Korean summit meeting scheduled in August 1994. However, the Beijing talks ended in failure due to the position of the South, which insisted on the construction of a meeting place for separated family members as a condition for its fertiliser aid. North Korea insisted on the unconditional provision of fertiliser aid.



North Korea changed its attitude soon after the failure of fertiliser talks with the South. Pyongyang was disappointed with Seoul's position on the principle of reciprocity, despite Seoul's promise of a flexible engagement policy towards North Korea. After the talks, Pyongyang again intensified its criticism of the Kim Dae-jung government, claiming that "there is nothing to expect anymore" from the new government (*Nodong Shinmun*, 30 April 1998).<sup>41</sup> Thus, despite Seoul's promise of a more conciliatory policy towards North Korea in the first year of the Kim Dae-jung government in 1998, Pyongyang was suspicious about the real intentions of Kim Dae-jung's engagement policy and thus showed no interest in resuming a North-South governmental-level dialogue (Brown 1999: 132).

Along with Pyongyang's continuing 'excluding Seoul' tactic towards the Kim Dae-jung government, North Korea's military provocations continued. For instance, on 22 June 1998, a midget spy submarine was accidentally caught in the net of a South Korean fishing boat; nine corpses found inside - apparently victims of execution and suicide - were returned through Panmunjom. Shortly thereafter, the body of a North Korean commando clad in diving gear washed ashore not far from the spot of the previous submarine intrusions. Despite Seoul's warnings, there were two more North Korean infiltration attempts by sea in the same year. In November 1998, a speedboat evaded pursuit along the western shore, while the December incident ended with the sinking of a spy boat off the southern coast. Moreover, in 1999, the North provoked an armed naval altercation with South Korea. Several North Korean patrol boats transgressed South Korean territorial waters, prompting the South Korean Navy to ram the trespassers and to exchange gunfire, which reportedly left 20-30 North Koreans dead. Shortly after the armed naval altercation, North Korea also detained a South Korean Mt. Kumgang tourist on alleged spy charges (Cha 1999: 856-7).

Also, international security concerns over North Korea's missile development programme continued, furthering military tensions on the Korean Peninsula in late 1998 and 1999. The tension was triggered by a report from the *New York Times* (on the 17<sup>th</sup> of August

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<sup>41</sup> The North Korean *Nodong Shinmun* (6 July 1998) commented that "President Kim Dae-jung is following the misguided footsteps of the former President Kim Young-sam".

1998), claiming that North Korea might be constructing a huge nuclear reactor in a mountain area in Kumchangri, some 40 km Northwest of North Korea's main nuclear site at Yongbyon, with some 15,000 workers digging at the site. Despite denials from North Korea, this report caused tensions between the US and North Korea. On top of that, on 31 August 1998, North Korea surprised the outside world by firing a multi-stage, long-range rocket or missile over northern Japan. Pyongyang claimed it was a satellite for peaceful purposes. Regardless of whether the test was for peaceful or military purposes, the general agreement was that the missile was a Taepodong-1 with a range of 1,000-1,500 kilometres, which covers most of Japan. The Japanese government responded to the launch by temporarily stopping assistance for the KEDO project, though it later decided not to (Quinones 2000: 169-70).

The US and Japan began to suspect that North Korea had developed nuclear weapons despite the AF reached in 1994, and that it already possessed or was developing long-range missiles to arm with a nuclear, biological and chemical warhead. Hence, along with pressure from the US Congress and media, especially the conservative circle, President Clinton named Dr. William Perry, former Secretary of Defence, as the 'U.S.-North Korea Policy Coordinator' in 1999, to participate in a full review of U.S. policy and objectives toward North Korea. Moreover, on September 21 1998, the US and Japan agreed to begin joint research on the TMD system in 1999 which irritated North Korea and also China (*Dongailbo*, 22 September 1998).

According to critics of Kim Dae-jung's sunshine policy, Pyongyang's military threats have increased rather than diminished during his government. Whatever the reasons behind North Korea's continuing military aggressions, its military behaviour showed few signs of abetting during the Kim Dae-jung government (up until April 2002 when this dissertation was submitted). The continuation of North Korea's military-first policy and threats has led many in Washington, Seoul, and Tokyo to question the wisdom of engagement policies that seek to persuade rather than coerce the North into cooperation. In particular, whenever North Korea has shown military aggression and thus created tensions in the Korean Peninsula, in Seoul, Kim Dae-jung's 'sunshine policy' has come under harsh criticism from conservative circles

for encouraging rather than discouraging Pyongyang's intransigence. Hence, Kim Dae-jung's economic engagement, including Mt. Kumgang tourism, became in danger of being stopped.

#### **4.1.i.b Signs of North Korea's stability and economic reform**

However, there are some positive signs from the North. First, the predictions of the imminent collapse of the North Korean system, especially after Kim Il-sung's death in 1994, proved to be wrong. Almost three years after the death of Kim Il-sung in 1994, the delayed elevation of Kim Jeong-il, Kim Il-sung's first son, to top positions was realised just before Kim Dae-jung took office. Kim Jeong-il took the title of General Secretary of the Korean Workers Party in October 1997, and the position of Chairman of the National Defence Committee at the first meeting of the 10<sup>th</sup> Supreme People's Assembly held on 5 September 1998, which signified the consolidation of his power in North Korea. Hence, the sudden unification approach based on the 'near collapse scenario' of the Kim Young-sam government appeared to be irrelevant. Instead, it would be more realistic for the Kim Dae-jung government to assume that North Korea will not collapse in the near future.

Second, North Korea has shown signs of economic opening up and reform, especially from late 1997 (Chung Ok-nim 1999a: 29-30). From mid-1990s, North Korea revised the constitution, adopting elements of a market economy, such as price competition, incentives for foreign investment, farmers' markets,<sup>42</sup> and sending North Korean officials overseas for market economy education. For example, according to an official of MOU, 15 North Korean economic officials were the first to receive training abroad, going in Shanghai in 1997. Then, 91 officials were sent overseas for study. At the end of 1999, a total of 109 trainees were sent to locations overseas, including the United States and Australia, under the United Nation Development Programme (UNDP), to participate in programs aimed at teaching methods of

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<sup>42</sup> Farmers' markets were used as a stop-gap method to provide consumers with daily necessities since the mid-1990s. The North Korean people purchase around 60% of their grain and 70% of daily necessities through farmers' markets. About 300-350 farmers' markets are located throughout the country, and items are traded on a free-market basis. Furthermore, North Korean authorities have not only allowed existing farmers' markets to expand, but also have allowed new ones to be established (Chung chung-gil and Jeon Chang-gon 2000).

attracting foreign investment (interview with junior MOU official, Seoul, February 2001). Moreover, although it continuously refuses inter-Korean governmental-level talks, the North Korean authorities began to take advantage of Kim Dae-jung's *jeongkyunghunri* policy by welcoming South Korean companies' investment and civilian humanitarian aid. Pyongyang, for instance, opened the Mt. Kumgang tourism in the North to South Koreans for the first time.

However, some analysts present negative views of North Korea's tentative reform efforts. For instance, Eberstadt (1998) argues that North Korea is not committed to developing a business-like pattern of economic engagement with South Korea, and also that Pyongyang's political and economic systems are not capable of handling economic reform. North Korea appears at best to be guided by an "aid-maximising economic strategy" (Eberstadt 1998: 131). Oh and Hassig (1999) reached the same conclusion. They suggested that the reforms undertaken by North Korea so far are "half-hearted and peripheral" and believe that North Korea will continue to adopt a muddling through approach rather than tentative economic reform (Oh and Hassig 1999: 289).

In sum, Kim Jeong-il seemed to consolidate his power, thus giving the impression of little probability of imminent collapse, which is a positive sign for the operation of a long-term engagement policy by the Kim Dae-jung government. Moreover, North Korea has shown signs of economic opening and reform. However, North Korea's international economic engagement in the late 1990s is not a new factor for the Kim Dae-jung government because Pyongyang's economic engagement with the South Korean private sector already occurred during the previous Kim Young-sam government. Moreover, economic reform measures are very slow and limited compared with other socialist countries such as China and Vietnam, which are eager to transform their economies towards a capitalistic model. Rather, North Korea's continuing military aggression and threats towards both the international arena and South Korea presented enormous difficulties for the implementation of President Kim Dae-jung's active and consistent sunshine policy.

#### **4.1.ii US factor**

The United States has been the most important external actor for the formulation of South Korea's security policy. As pointed out in chapter 2, Seoul's security policy towards North Korea has been paralleled by the US containment policy in the Cold War era. Thus, the US-South Korea military alliance has been the core policy means for South Korea with regard to North Korea's threat. Furthermore, as shown in North Korea's 'southern' and *tongmibongnam* policy, the US became the most important target for North Korea's diplomatic objectives, and became the crucial variable in influencing North Korea's behaviour and thus inter-Korean relations in the post-Cold War period. Hence, the US policy towards North Korea is still an important factor for the South Korea's policy with regards to the North Korean security problems.

##### **4.1.ii.a Soft-landing policy**

As seen during the nuclear crisis, the US and South Korea confronted the limitations of military power and economic sanctions for addressing the post-Cold War North Korean security problems. They recognised the effectiveness of economic 'carrots' as an alternative means to manage the North Korean nuclear threats and to achieve stability on the Korean Peninsula. Hence, it was the US along with South Korea and Japan that offered KEDO energy assistance to help resolve the nuclear crisis. In fact, the events of the nuclear crisis and its aftermath have taught US policy-makers that the strategy of offering an economic 'carrot' is likely to be a far more effective and less costly means to manage post-Cold War North Korean security threats.

The realisation by US policy-makers that economic engagement is the most effective tool in moderating North Korean military aggressiveness has been consolidated since the real state of the North's economic decline has become known, especially after North Korea's request for emergency food aid to the outside world for the first time in 1995. Thus, the internal collapse of the North Korean regime has begun to take precedence over its external military threats. Fear of the sudden collapse of North Korea has begun to convince US policy-

makers that rather than just attempting to treat the symptoms of North Korean security problems with a range of short-term economic concessions, a long-term economic engagement strategy is necessary to tackle North Korea's economic insecurity. It was the United States' hope that various forms of economic exchange will bring North Korea into the international community and make it a more normal state.

For instance, Warren Christopher, US Secretary of State, stated in 1995 that "Our goal in crafting the Agreed Framework was to stop North Korea's existing nuclear programme...[However] The AF not only stops North Korea's nuclear programme in its tracks. It provided the basis for reducing tensions in the region by opening the way for the establishment of more normal political and economic relationships between the United States and North Korea, and prospectively between North and South Korea".<sup>43</sup> Hence, the US, especially the Department of State, regarded the KEDO project as the initial stage in opening North Korea up and to incorporate it into the East Asian region and the larger international community.

#### **4.1.ii.b Difficulties in execution of the engagement policy towards North Korea**

Although the Clinton administration has publicly supported the 'soft-landing' policy towards North Korea, there are several factors that hamper the execution of this approach. First of all, execution has been impeded by US domestic opposition. The core supporter of 'soft-landing' has been the Department of State, but it has encountered opposition from elements in the US military and Congress. A 'hawkish' attitude has emerged from the military and intelligence community along with the Republican dominated Congress from 1994. They have viewed the AF as a kind of appeasement of North Korean military behaviour. Also, they are concerned that political ties with South Korea and Japan were damaged by North Korea's *tongmibongnam* strategy in the nuclear crisis, and also the AF's negative effect on the

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<sup>43</sup> Statement of Secretary of State Warren Christopher in the Senate Committee on Foreign Relations in 1995.

legitimacy of the US troops presence in the South due to the closer cooperation between the US and North Korea.<sup>44</sup>

The hawkish side of the Republican Party in Congress opposed the KEDO project on the grounds that it offered too many concessions with no effective measures against North Korea's future military aggression beyond a vague commitment to engage with North Korea. Moreover, after the suspect underground construction at Kumchangri was reported and after North Korea's test-fire of a multi-stage missile over Japan in August 1998, the US Congress reacted very strongly against North Korea's military threats. The Republican majority in the Congress attached various conditions to the bills related to North Korea, sponsored anti-North Korea bills, opened hearings on North Korean issues, and began to work on budgets that would prevent the Clinton administration from pursuing an engagement policy toward North Korea.<sup>45</sup>

For instance, the US Senate-House Conference Committee passed a compromise bill (the Fiscal Year 1999 Omnibus Appropriations Act on KEDO) on 19 October 1998, with the original 35 million dollars re-instated, but with multiple strict conditions. First, the 35 million dollars was not to be made available until 1 March 1999. Second, of the funds made available for KEDO, up to 15 million dollars would be made available prior to 1 June 1999 only when the US President certified and so reported to Congress that North Korea's full compliance and cooperation had been made with respect to the Joint Declaration on the Denuclearisation of

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<sup>44</sup> It was reported that in 1997 the US Secretary of Defence William Cohen announced that the US would keep troops in the South regardless of the outcome of the South-North reunification dialogue, see *Monthly Chosun* (March 1998).

<sup>45</sup> The US Representative Benjamin Gilman introduced "The North Korea Threat Reduction Act of 1999" on 18 May 1999. This act authorised appropriations of as much as 55 million dollars for the fiscal year 2000 for assistance to KEDO as the Clinton Administration requested. This bill specified conditions for the release of funds by attaching as many as eight conditions, which are far more difficult to meet compared to the conditions attached to the bill for the Fiscal Year 1999 introduced on 19 October 1998. This bill was the most anti-North Korea bill ever introduced in the U.S. Congress since the AF in 1994 (Baik Hak-soon: 80-3). Also, on 3 November 1999, Benjamin Gilman released an alternative Republican version of the Perry report, called 'North Korean Advisory Group' report. Its findings reinforced the Perry report, but put greater emphasis on the deterrence of military threats from North Korea. In the name of the American people's right to know, the report emphasised that North Korea posed a greater threat to U.S. national security, despite the 1994 AF between the US and North Korea. It revealed that despite the U.S. aid of some \$645 million to North Korea over the past five years, it still developed nuclear weapons and had the capability to strike the United States with chemical and biological missiles (U.S. Department of State 1999).

the Korean Peninsula, North-South dialogue, the safe storage of spent fuel from the graphite-moderated nuclear reactors, no significant diversion of U.S. assistance to North Korea's military build-up, and U.S. full engagement in efforts to impede North Korea's development and export of ballistic missiles. Third, of the funds made available for KEDO, up to 20 million dollars may be made available after 1 June 1999 only when the President certified, and so reported to Congress the following: the initiation of meaningful discussions with North Korea on the implementation of the Joint Declaration on the Denuclearisation of the Korean Peninsula; the agreement with North Korea on the means for satisfying the US concerns regarding suspected underground construction at Kumchangri; and significant progress in negotiations with North Korea on reducing and eliminating the North Korean ballistic missile threat. Hence, since late 1998, the Congress made it increasingly difficult for the US government to deliver free oil supplies on time to the North as promised in AF.

The Senate-House Conference Committee also mandated "a full and complete review of United States policy towards North Korea by a very senior presidential envoy in the name of 'North Korea Policy Coordinator' to help restore confidence in the Clinton Administration's North Korea policy (House of Representatives of the United States 1998). As a result, President Clinton named former Secretary of Defence William Perry to the position of 'North Korea Policy Coordinator' on 12 November 1998. After a year, the Perry Report was submitted to the White House and the U.S. Congress in mid September and released in unclassified form to the public on 12 October 1999.

However, the content of the year-long review process, documented in the "Perry Report" was also not necessarily supportive of the US's deeper engagement policy towards North Korea despite the Kim Dae-jung government's efforts to lobby William Perry to reflect this engagement stance in it.<sup>46</sup> The U.S. Department of State has made the complete text of the unclassified version of the Perry report available to the public. The document is entitled "Review of United States Policy toward North Korea: Findings and Recommendations, on 12

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<sup>46</sup> Lim Dong-won, Senior Secretary of Foreign Affairs and Security (SSFAS) of South Korea, has met William Perry more than six times from January to September 1999, at a time when Perry was



October 1999". The core of the Perry report is called "A Comprehensive and Integrated Approach", and is focused on U.S. concern over the North Korea's nuclear weapons and missile related activities. The U.S., under this plan, would seek complete and verifiable assurance that North Korea does not possess a nuclear weapons program and has stopped the testing, production, deployment, and export sales of missiles exceeding the parameters of the Missile Technology Control Regime (MTCR). At the U.S. Senate hearing on 12 October, 1999, Perry said that "[I]f we simply ignored them, if we simply tried to seal them off, they could still proceed with a missile and nuclear weapons program that could develop on a short time scale" (quoted in Kihl 1999c: 13). The report also mentioned that only if North Korea cooperated with the US to end its nuclear weapons and ballistic missile-related activities, would the U.S. establish diplomatic relations with North Korea and join in the Kim Dae-jung government's policy of engagement and peaceful coexistence.

Even though the 'Perry Report' points out that the U.S. and its allies seek peaceful coexistence with North Korea rather than seek to undermine it, the U.S. position is that it would not hurry to implement greater engagement measures toward North Korea. Rather, it would continue to focus on North Korea's military issues. The Perry review team, for instance, rejected some of the greater engagement measures towards North Korea. It rejected 'reforming North Korea' policy because this would require a long time to realise and the North would at the same time proceed with nuclear weapons and ballistic missiles. Also, it rejected the option of providing economic concessions to North Korea in return for North Korea's abandonment of missile exports because it would only encourage North Korea to further blackmail (Perry 1999).

To be sure, Mr. Perry's proposal indicated that the Clinton administration was willing to negotiate and cooperate with North Korea as a normal state. This is clearly in contrast with the fact that the U.S. was not convinced that the North Korean regime would survive, and this became the foundation of the 'North Korean Collapse' theory often cited in the mid-1990s. However, considering the fact that the US's status as a political, military and economic power

and North Korea's strong desire to cooperate with the US, the Perry recommendation does not show enough political will of the U.S. in policy-making towards economic engagement with the North. 'Perry Report' was even called nothing more than a variation of 'coercive diplomacy' (Kihl 1999c: 26).

Second, the difficulty in implementing an active engagement policy by the US with the North is not just due to hawkish domestic opposition and a lack of bipartisan support. Rather, the Clinton administration did not shown the necessary policy-making will for active engagement with the North. It is believed that US high-level decision-makers did not want to take political risks on the issue of engagement with the North and thus were relatively immobile over greater engagement with North Korea (Interview with a junior official in MOFAT, Seoul, February 2001).

The AF, for instance, did more than freeze North Korea's nuclear program. It contained a promise that the United States would phase out economic sanctions and work toward the normalisation of relations with North Korea. In fact, positive developments followed the agreement. The US offered food aid to North Korea and partially lifted the economic sanctions on Pyongyang in return for North Korea's promise to stop missile testing, as reached in the Berlin agreement between the US and North Korea on 12 September 1999 (Song Moon-hong 1999).

However, the Clinton administration continued to maintain effective economic sanctions towards North Korea. The core element of U.S. sanctions to North Korea comprised prohibiting trade, investment, and assistance, as stipulated in the complicated way in the Trading With the Enemy Act (TWEA), various acts on international terrorism, and regulation against the Communist countries. Moreover, the Clinton administration did not support North Korea's entry to international financial organisations such as the Asian Development Bank (ADB), the IMF, and IBRD.

Therefore, even if North Korea is removed by the State Department from the list of terrorist restrictions and sanctions, which is believed to be the most probable concession by

the US in near future,<sup>47</sup> the US's economic sanctions can be effectively continued against the North through other related regulations. Kim Jang-han (2000), a North Korean specialist of KOTRA, is sceptical about the US's lift of economic sanctions against North Korea and points out that in order to reinvigorate the trade between the U.S. and North Korea, securing the status of Normal Trading Relations (NTR) from the U.S. is the most important prerequisite, because there is a great deal of discrimination in terms of tariff levels imposed on non-NTR countries compared to those with the NTR status. However, he predicted that it would take a considerable time for the North to secure this, as seen in the cases of China and Vietnam, both of whom had to wait for years before being recognised as NTR even after the normalisation of diplomatic relations with the US.

Moreover, the Clinton administration would not take advantage of the opportunity for normalising relations with the North. Especially after the historical South-North Korean summit in June 2000, the Clinton administration had a chance to push U.S.-North Korean relations forward. As pointed out in chapter 2, Cho Myong-rok, the number two man in the North, visited the US; then the US Secretary of State Madeleine Albright visited Pyongyang for a meeting that was designed to pave the way for a visit by President Clinton. The meeting was cordial and Kim Jeong-il gave a number of signals including Pyongyang's promise of not to produce, test, deploy or sell missiles with a range of over 300 miles and missile components. That is, he was willing and able to resolve the U.S. security concerns in the context of a broader agreement to improve relations between the two countries (*Far Eastern Economic Review*, 21 October 2000: 21). However, domestic political considerations led President Clinton to decide not to travel to North Korea.<sup>48</sup> A critical opportunity to advance the reconciliation process was lost.

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<sup>47</sup> In fact, the US kept North Korea on the "terrorism list" even though the State Department acknowledged that the North had not committed an act of terrorism since 1987 (Landsberg 2001: 20).

<sup>48</sup> Landsberg (2001) suggested that when the two countries began to move towards normalising relationships in late 2000, the media criticisms, orchestrated by those opposed to this improvement, succeeded in painting the Clinton administration as naïve and thus likely to be cheated by the North. Under the domestic pressure, President Clinton was not willing to take the political risk and gave up the visit.

Third, the U.S. business community, which is an important actor in performing business-track diplomacy, has shown very little business interest toward North Korea. In other words, it is difficult to envision North Korea becoming competitive any time soon as a magnet for U.S. trade and investment. It seems that the U.S. corporations know that they cannot expect to be able to explore the North as one of their markets for the time being, as high economic growth would be necessary for a considerable period of time before North Korea had a reasonable purchasing power. In fact, US companies interested in investment in North Korea have decreased because of the level of internal change, with the North Korean regime not serious about economic reform, and state control of the foreign corporations extensive. There are many other places around the world which are far more attractive to American business representatives and investors than North Korea. It was suggested that “for the business community in the U.S., North Korea is almost bottom in terms of business interest because there are too much risks” (Olsen 2000: 112).

As a result of lack of policy-making will for comprehensive engagement towards North Korea by US domestic actors, few commercial transactions are being made between the two countries. There has been no tangible progress in economic exchanges, which are virtually nil as seen in Table 4-1. There is virtually no export of North Korean products to the U.S. The U.S. exports to the North consist chiefly of economic and humanitarian aid. In fact, there was not a single case of imports by the U.S. from the North since the import of footwear worth US\$8,000 in 1992 until the U.S. imported 3 units of transformers worth US\$ 29,000 in 1999.

**Table 4-1. U.S.-North Korea trade**

	Unit: Thousands of US\$				
	1992	1995	1997	1998	1999
Total Amount of Trade	475	5,006	2,409	4,454	11,289
U.S. Export to the North	467	5,006	2,409	4,454	11,260
U.S. Import from the North	8	0	0	0	29

Data based on U.S. Department of Commerce. Quoted from Kim Jang-han (2000).

As discussed above, the United States shared the logic of an engagement policy towards North Korea. However, North Korea's continuing military threats forced the U.S. Congress to limit engagement with the North. Thus, it is difficult to get bipartisan support for an engagement policy towards North Korea. It is also true that the Clinton administration itself lacked the political will to take risks, to implement more active engagement measures, and to normalise relations with the North. Moreover, the powerful U.S. business community also saw no special business interests in investing in the North for the time being, unless North Korea introduced at least some tentative economic reform measures.

#### **4.1.iii Japan factor**

##### **4.1.iii.a Support for the soft-landing policy**

Japan is undoubtedly an important country that could help North Korea's economic reconstruction, and thus its economic reform and opening up to the outside world. After South Korea experienced a financial crisis, Japanese economic power became an even more crucial element to help South Korea's economic engagement of the North. In fact, Japan itself has recognised its potential economic contribution to decreasing North Korea's military aggression. As discussed in chapter 2, in the post-Cold War era there has been growing feeling among Japanese leaders that Japan should explore the possibility of improving relations with North Korea. Also, they have gradually come to realise the limitation of the traditional military and economic containment approaches in dealing with the post-Cold War North Korean security problems, and that Japan's mobilisation of economic power can offer a chance to resolve the problems.

At the height of the nuclear crisis, for instance, Japanese policy-makers did not see coercive economic policy as an effective tool for stopping North Korea's nuclear development. The plan to impose UN sanctions against North Korea, led by the United States, needed the active participation of the Japanese government in order to be an effective pressure on North Korea. It called for Japan to halt all remittances by *Chochongryun* (Pro-North Korea association of Korean residents in Japan) to North Korea. However, Japanese

policy-makers were aware not only that this measure would not be successful in preventing Japanese, and especially Pro-North Koreans, from sending money to North Korea, but also that this would have a negative impact on both international and domestic affairs, damaging the relationship between Japan and the pro-North Korean society in Japan, and between Japan and China (*Chosunilbo*, 22 March 1994; Lind 1997: 397-9).

Hence, with the signing of the U.S.-North Korean Agreed Framework in October 1994, the Japanese government, under Prime Minister Murayama Tomiichi, welcomed the AF in Geneva and indicated its willingness to share the cost of building light-water reactors for North Korea. In fact, the Japanese policy-makers recognise the importance of policy coordination with the United States and South Korea and assumed a significant role in the management of the KEDO project. Thus, it expressed full support for the principle of engagement with North Korea and thus the 'soft-landing' policy. The Japanese support of engagement policy has been shown in the various food aids and humanitarian reliefs to Pyongyang through either directly or United Nations (Kim Hong-nack and Hammersmith 2000: 597-601).

At the same time, it is in North Korea's vital interest to establish diplomatic ties with Japan to compensate for diplomatic setbacks caused by South Korea's diplomatic relations with USSR and China in the early 1990s. Also, North Korea was sorely in need of Japan's financial assistance to cope with its economic crisis. Therefore, North Korean leaders tried to resume normalisation talks with Japan in the 1990s, in spite of various political and military tensions in the Korean Peninsula. Thus, Japanese policy-makers recognise Japan's potential economic capability and the need for an engagement policy towards North Korean in order to decrease North Korea's military behaviours and to reduce tension in the Korean Peninsula.

#### **4.1.iii.b Japan's immobilism and US-Japan security arrangement**

However, the normalisation talks between the two countries were stalled and no substantial economic cooperation was realised between them, in spite of several visits to Pyongyang by several prominent members of Japan's national legislature, the Diet, and numerous rounds of

working level discussions. There are several factors that contributed to the impasse of the normalisation between the two countries, which is one of the most important political prerequisites for Japan's economic based security policy towards North Korea. First, South Korea's external pressure made it difficult for Japan to initiate any diplomatic moves towards Pyongyang. As discussed in chapter 3, both the Roh Tae-woo and the Kim Young-sam governments were greatly suspicious of Japanese motives for the normalisation efforts towards North Korea, as it was based on the *status quo* policy of a divided Korean Peninsula, and on erasing Seoul's diplomatic and economic edges in the post-Cold War era. Hence, they were opposed to Japan's unilateral normalisation moves and large-scale economic cooperation with North Korea ahead of real progress between South and North Korea.

The principal concern of Japanese policy-makers in pursuing engagement with North Korea was that it should not damage relations with South Korea, in the same way as during the Cold War era. The Japanese government continued to prioritise around relations with South Korea and was prepared only to improve relations with North Korea in such a way that ensured Seoul's diplomatic interests would not be damaged. For instance, after vigorous inter-party negotiations and talks, from 1989, North Korea's Korean Workers Party (KWP), the Japanese Liberal Democratic Party (LDP), and the Social Democratic Party of Japan (SDPJ) produced the Three-Party Joint Declaration in September 1990. It promised to urge the governments of both countries to move towards the normalisation of relations; and stated that Japan should not only apologise for colonial rule but also provide appropriate compensation for the period since World War II.

However, given the concern over North Korea's nuclear programme from late 1990s, the Japanese government agreed with Roh Tae-woo government's demand not to rush into normalisation and compensation but to urge North Korea to accept IAEA inspections and to apply economic pressure (Quinones 2000: 149-50). Thus, since previous South Korean governments were not supportive of Japan's active engagement with the North, Japan was forced to remain reactive in regard to the normalisation issue and to keep a watchful eye on the progress of inter-Korean relations.

A second source of restraint is the lack of Japanese policy-making will for pursuing an active engagement policy towards North Korea. It became apparent that Japan's policy-makers and business community did not have the political energy for a greater engagement policy toward North Korea, even when the South Korean government dropped the objections to Japan's move towards normalising relations with the North. In fact, the new Kim Dae-jung government has been consistently encouraging the two countries' normalisation and improvement of economic exchanges.

Rather, with growing concerns over North Korea's missile and nuclear development, especially from the late 1990s, Japanese policy-makers seemed more reluctant to initiate engagement with Pyongyang to address North Korean security problems, despite understanding its importance. Hughes (1999) highlights in his book "Japan's Economic Power and Security" the immobilisation of Japanese policy-making in the area of economic engagement towards North Korea. He argues that there are no individual politicians and parties willing to take risks and expand political energy enough to mobilise Japan's economic power for security concerns regarding North Korea (Hughes 1999: 187).

Furthermore, under North Korea's present economic circumstances, it is difficult to expect that Japan's leading corporations will consider advancing into North Korea and spending their own money. Since they have experienced a hard time due to the North's default in the repayment of its debts incurred for the purchase of plant facilities back in the 1970s, the Japanese business community has the image of North Korea as an unreliable business partner. Thus they would not be willing to run another risk by investing in the North. Also, Japanese businesses can see no good reason for investing in new projects in the North and assuming all the risk, as their South Korean counterparts do. Put differently, North Korea is apparently not a favourable location to attract Japanese businesses, compared to countries in other parts of the world. Their reluctance to invest in the North can be accounted for by the various problems of conducting business in the North. These constraints include the regime's political regulations and thus lack of management freedom, as discussed before; unreliability



of energy supplies; unexpected high labour costs and no substantial long-term economic incentives (Hughes 1999: 180-3).

Also, the role of *Chochongryun* (pro-North Korea association of Korean residents in Japan) is not very great in terms of economic engagement toward North Korea, though it has made a considerable contribution to North Korea's economy through joint ventures and remittances. It seems that native Japanese companies understand that the kind of influence that *Chochongryun* has on North Koreans is just something they can more than secure through their cooperation with South Korean counterparts and thus they see no great merit in trying to advance into the North in cooperation with *Chochongryun*. Furthermore, it is expected that the role of the companies belonging to it will shrink further if Japanese companies start to make investment after the normalisation between Japan and North Korea. Thus, it is likely that Japanese businesses interested in investment in North Korea will choose to take part in either the projects linked with the Japanese government's compensation money for the past, after the normalisation between Japan and North Korea, or in joint ventures with South Korean businesses that have already established a foothold in North Korea (*Sisa Journal*, 9 December 1999: 48-9).

On the contrary, Japanese policy-making efforts have been devoted to enhancing Japan's military role rather than to economic engagement in its security strategy in the post-Cold War period, through the redefinition of the U.S.-Japan alliance and other measures. Under the set of revised 'guidelines' for the US and Japan joint military alliance, announced in September 1997, the armed forces of the two nations would cooperate in dealing with emergency situations 'in areas surrounding Japan', with undefined boundaries, rather than strictly within the Japanese territory as under the old agreement. The Japanese Self-Defence Forces (SDF) would undertake, for instance, search-and-rescue operations in waters around Japan and assist U.S. forces in areas outside Japan (*Chosunilbo*, 25 September 1997).

Immediately after the August rocket or missile launch by North Korea in 1998, the Japanese government repeatedly warned North Korea of the potential consequences if it repeated this action without giving Japan prior notification. In fact, the missile in question

was believed to be a Taepodong-1 which was capable of reaching easily the whole of Japan. This premise also heightened the Japanese security concern about North Korea's military threat. Japan's strongest fear was of North Korea's possible chemical missile attack and the domestic disorder that it might produce, though there is general doubt that North Korea's missile technology is good enough to launch a genuine nuclear strike force (Hughes 1999: 91).

Feeling vulnerable due to its lack of offensive capacities to counter North Korea's possible attacks, Japan has resorted to self-help measures. For example, in November 1998, Japan decided to acquire spy satellites for the first time. In addition, in March 1999, a JDA Director General, Hosei Norota, told a Diet defence panel that Japan had the right to make preemptive military strikes if it felt a missile attack on Japan was imminent. Although Japan at present does not have the capability to carry out such a threat, the statement was clearly made as a warning against North Korea's military threats. Japan has also agreed to deepen its cooperation with the US on the joint development of intelligence satellite technology and the Theatre Missile Defence system (TMD), which China and North Korea oppose and even South Korea is reluctant to participate in (Quinones 2000: 168-172).

Japan's interest in an enhanced military role has been prompted by North Korean nuclear and missile threats from early 1990s. However, the basic reason for Japan's pursuit of the military alliance with US is to counteract the uncertainties of the post-Cold War era. In Japanese eyes one of the uncertainties of the post-Cold War era is the future of the Chinese regime, and Japan chooses to maintain closer tie with the US in order to avoid its 'abandonment' by US as the essential strategic partner in East Asia, though Japan may run the risk of confrontation with China at the same time. The US/Japanese TMD project, for example, can be seen by China as an attempt to counter its growing power through bolstering the ability of the US-Japan military alliance across Asia-Pacific region in the post-Cold War era. Thereby, Japan could face difficulties in maintaining harmonious relationships with China. Although there is scepticism about the feasibility and thus the true military benefit of

the project, Japanese policy-makers view it as an important measure of the political solidarity of the US-Japan alliance (Drifte 2000).

## **4.2 Domestic factors**

### **4.2.i Democratisation**

As pointed out in chapter 1, a state's foreign policy-making could be influenced by its domestic political system. In South Korea, continuing transformation towards democratisation from late 1980s may have influenced South Korea's foreign policy-making process. Thus, this section looks at whether South Korea's democratisation has influenced the Kim Dae-jung government's North Korea policy.

Firstly, South Korea's democratisation has certainly influenced the retreat from anti-North Koreanism as the national security ideology during the Cold War era. As pointed out in chapter 2, South Korea has been depicted as one of the most rigid anti-communist states in the Cold War era. Having undergone the experience of the Korean War in 1950s, and the subsequent heightened hostility, distrust, and confrontation between the two Koreas, North Korea provided most South Korean people with the image of an arch-rival and enemy. Thus, South Korea has preoccupied itself with national security, especially military security and the anti-North Koreanism ideology as core principles of its North Korea policy direction.

The primacy of anti-North Koreanism and military power were used by the military authoritarian regime to tightly control people through a peculiar form of national ideology from the 1960s to the late 1980s. President Park Chung-hee (1961-1979) adopted the principle 'victory over communism', which was apparently targeted at North Korea, and emphasised the supremacy of the state over individuals in the name of 'national security and stability'. This trend continued under the Chun Doo-whan regime from 1980 to 1987. Thus, South Korea's democratic and progressive movements, such as labour and unification activities, were cracked down in the name of social stability and national security, to deter North Korean threat (Moon and Paik 1998: 264-7).

However, the rapid growth of the South Korean economy and its growing interdependence with the outside world during the Cold war era produced a rapid widening of access to the communication media, which fostered a rise in the resources, skill, and cognitive sophistication of the general public and enhanced their political competence. This, in turn, created growing societal recognition and pressure for democratisation. There was also the growth of a group of middle-class citizens, who were becoming increasingly resistant to South Korea's top-down military rule and repression, and responsive to the effects of democracy elsewhere in the world. Some of these middle class individuals sided with student demands for democracy in late 1980s (Lee Aie-rie 1998: 223-6).

South Korean people's opposition to military-led dictatorship included its excessive use of anti-North Koreanism as a governing ideology. Particularly the youth of South Korea began to consider the old concepts of national security ideology as instruments for building a hegemonic bloc for domination by the military led government in South Korea. In fact, in the past three decades, Korean political leaders have utilised the national security ideology as a tool for indoctrinating the masses, controlling civil society, consolidating legitimacy, and thus maintaining political power. Democratic activists along with the majority of the public strongly called for a choice for individual rights over nationalism (the supremacy of the state), equality over economic growth, welfare over defence, and also ideological diversification over rigid anti-communism and North Koreanism. Given the progress towards democratisation in 1990s, a substantial number of democratic movement activists, even ex-pro-North Korean student activists, were able to come to the political arena as congressmen, government officials and members of interest groups. Therefore, the impact of the rigid anti-North Koreanism ideology on South Korean politics was diminished, though this anti-North Korean mind-set is still the backbone of South Korean 'conservatism' in the 1990s.

One direct impact of the move towards South Korea's ideological diversification beyond anti-North Koreanism on North Korea policy was the election of Kim Dae-jung as President in 1997. Although the presidential victory of the opposition leader Kim Dae-jung

could be accounted for by several other factors,<sup>49</sup> one important implication was that many South Korean people felt that Kim Dae-jung, the most progressive and liberal politician in regard to societal and North Korean issues among prominent South Korean political leaders, was no longer ideologically dangerous (Kim Do-jong 2000: 46). In fact, Kim Dae-jung had been continuously accused of being a 'Red' and was damaged severely by this ideological attack, being defeated in the three previous presidential elections (1972, 1987, and 1992). Thus, he decided to make a coalition with the United Liberal Democrat (ULD), the most conservative party of South Korea, in the 1997 presidential election, to dilute his long-time pro-North Korean image.

A second impact of democratisation on the South Korean policy-making process is that its policy-making structure is increasingly pluralistic, with various groups exercising different degrees of influence according to the particular issue addressed, even on North Korea policy. An important feature of authoritarian regimes is that the state enjoys a high degree of autonomy from the public. However, the impact of democratisation on the state autonomy over foreign policy-making becomes more complex by reducing its policy-making power and increasing the difficulties of implementing certain policies.

Whereas the dominant elite groups in the previous authoritarian regimes, such as the military and the bureaucracy, may lose their political power to formulate policy towards North Korea, a large number of social groups are expected to emerge as new pressure groups, such as opposition parties, mass media, interest groups and so on. Thus, the government will find it increasingly difficult to exercise absolute control over North Korea policy, and has to accommodate the demands coming from the private sector. At the same time, it can utilise these non-governmental actors as effective policy means to achieve security objectives regarding North Korean threats.

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<sup>49</sup> The opposition leader Kim Dae-jung's 1997 presidential victory was generally accounted for by the financial crisis that had broken out under the ruling party, the split of presidential candidates within the ruling party into Lee Hoi-Chang and Lee In-je, and the political coalition of opposition leaders, Kim Dae-jung and Kim Jong-pil.

As discussed in chapter 3, the pluralistic nature of North Korea policy in the South was well demonstrated by the fact that the media and the public opinion played a key role in shaping the Kim Young-sam government's North Korea policy. Thus, it can be assumed that a pluralistic range of domestic actors could possibly influence the Kim Dae-jung government's consistent engagement policy. The later sections will examine these domestic actors.

#### **4.2.ii Financial crisis**

The South Korean financial crisis in late 1997 provided both favourable and unfavourable environments for Kim Dae-jung government's engagement policy towards North Korea. On the one hand, the financial crisis helped to legitimate Seoul's engagement with the North. In the past, South Korea's overconfidence was met with fear and hostility in North Korea. But, the South's economic slowdown dissipated the groundless claim that the South could absorb the North in the case of the latter's collapse. Thus, economic difficulties forced the South to relax the unification policy based on the hope of North's sudden collapse and its own exaggerated notion of superiority, and, instead, to adopt the approach of seeking co-existence through mutual cooperation between the two Koreas.

On the other hand, it decreased South Korea's economic capability to utilise business-track diplomacy under the Kim Dae-jung government. As pointed out in the theory of business-track diplomacy in chapter 1, economic capability is one important requirement in order to pursue economic-based engagement with a target state. However, the impact of the financial crisis made it difficult for Seoul to enhance the business-track diplomacy towards North Korea. This crisis significantly curbed the financial ability of the South Korean public sector to promote economic exchanges with North Korea. Governmental level economic aid, such as food supplies, agricultural fertiliser and other financial aid towards North Korea, decreased compared to the 1993-1997 period, though civilian aid increased (MOU 2000b).

A vivid example of this was found in the failure of Beijing talks in 1998 between the two Koreas. Although the Kim Dae-jung government was ready to initiate active engagement

with North Korea by providing fertiliser, it insisted on a separate family reunion event as a pre-condition for its fertiliser aid towards the North. Although Beijing talks were held only two months after the inauguration of President Kim Dae-jung, the South Korean government was not in a position to provide the North with unconditional economic aid. Moreover, other North Korean infrastructure projects, such as the development of its transportation and energy, which required huge amounts of money from the South Korean government, could not be carried out partly because of Seoul's financial difficulties. For example, North Korea, which is undergoing severe electricity shortages, as discussed in chapter 2, asked for South Korea's help, especially after the presidential summit in June 2000. Connecting the South-North electricity lines would help to overcome the North Korean electricity problem that had been one of the main constraints for deeper inter-Korean economic cooperation. However, they could not reach an agreement at this point, partly because the Kim Dae-jung government had difficulty in using public money for it, though it wanted to (Yang Moon-soo 2001).

In fact, the main obstacle to government level economic engagement with North Korea was not the lack of financial power caused by the financial crisis. Rather it was the fact that the financial crisis legitimised South Korean domestic criticisms of Kim Dae-jung government's unconditional economic assistance towards North Korea in the midst of South's economic difficulties. Hence, Seoul has been very cautious about government level economic aid towards North Korea.

Furthermore, IMF sponsored loans, with conditions such as high interest rates and a deflationary fiscal policy, led to an unprecedented high rate of bankruptcy of chaebols, not to mentioned small and medium sized enterprises. Private corporations, especially chaebols, were no longer capable of engaging risky business activities with the North. In fact, the South Korean government's 'structure-reshaping' policy, backed by IMF, as the response to the financial crisis, brought enormous pressure for them to be extremely parsimonious in terms of financial management in order to survive. Hence, the new domestic business environment caused by the financial crisis and the adoption of the so-called 'neo-liberal' economic mechanisms changed the South Korea's business community towards being more profit and

economic-oriented rather than expansion and politically oriented. This meant that the South Korea business community became restricted in regard to politically and long-term motivated North Korean investments, and looked for profitability in their North Korean business projects. Thereby, the financial crisis also contributed to downgrade private sector's economic capability to implement business-track diplomacy towards North Korea.

#### **4.2.iii Ruling party and 'shared government'**

The North Korea policy of the ruling party, National Conference for the New Politics (NCNP), which changed its name to the Millennium Democratic Party (MDP) a few days before the general election in April 2000, has generally reflected progressive opinion and supported President Kim Dae-jung's 'sunshine policy'. Pro-North Korean and unification attitudes certainly exist among a limited number of NCNP members. As part of the wider process of political democratisation, some student and labour movement activists, with liberal ideas towards North Korea, were elected as congressman of the NCNP. Thus, MDP's North Korea policy is supportive of the Kim Dae-jung government's engagement policy.

However, a more important aspect is North Korea policy coordination between MDP and the conservative United Liberal Democrat (ULD) under the 'shared government'. In fact, in order to win the 1997 presidential election, NCNP recruited more centralists and even retired conservative army generals in order to attract more centre voters. Moreover, it made a political coalition with the ULD, which possesses many members with a hawkish position towards North Korea. In fact, Kim Dae-jung owes his victory in part to the unlikely coalition he formed two months before the election with the conservative chairman of the ULD, Kim Jong-pil. The support from Kim Jong-pil's stronghold in the Chungchong provincial region may have made the difference between victory and defeat in the presidential election. Before the presidential election, both Kims agreed to make a political alliance based on the promise of 'shared government' if they win the election.

After the victory, both Kims participated in the government by assuming the roles of president and Prime minister. However, the two parties do not share much in terms of



political ideology about various issues, especially North Korean policy. The coalition was basically uncomfortable because of the differences in each party's political ideology and the party members' political background. The NCNP led by president Kim Dae-jung is basically a progressive party consisting of former opposition party members who worked for the democratisation and unification movement of Korea. The ULD, led by the prime minister Kim Jong-pil, however, is a conservative party which is constituted by former generals and ruling party members. Thus, the Kim Dae-jung government has internal political weaknesses that affect the implementation of the North Korea policy. Thus the Kim Dae-jung government was expected to be eventually forced into a conservative approach in terms of policy formulation, similar to the Kim Young-sam government.

However, this unbalanced political coalition between NCNP and ULD actually played a positive role in containing opposition forces to the engagement policy towards North Korea during the first three years of Kim Dae-jung government. In fact, in the policy-making process of the 'shared government', Prime Minister Kim Jong-pil has not shown opposition towards Seoul's sunshine policy. It is generally believed that the conservative image of Kim Jong-pil and ULD has provided the public with a psychological assurance, that ULD would restrict the Kim Dae-jung government from implementing too soft a policy towards North Korea (Kim Do-jong 2000: 52-3).

However, Kim Jong-pil and ULD did not make the conservative case in the North Korean policy-making process and rather defended the policy in return for increasing its political power in the shared government, such as the ULD's increased share of cabinet members. A congressman of ULD confirmed this when he said that "we are more comfortable with opposition Grand National Party (GNP) in some respects, and, most importantly, this applies to the North Korean issues. However, we are not going to raise a conservative voice in that issue because of political considerations" (Interview with a congressman of the ULD, Seoul, September 1999).

For instance, when the 1999 naval clash between North and South Korea on the West coast of the Korean peninsula brought severe criticism over the sunshine policy from the

opposition party and the mainstream media groups, Kim Jong-pil defended the President Kim's policy towards North Korea. He said that that "I am a conservative on the North Korean issue as people know and it is no compromise. Because I am prime minister of this government, the people do not need to worry about the direction of this government's North Korean policy"(quoted in *Chosunilbo*, 22 June 1999). Whenever there were criticisms over the engagement policy implementation, caused by North Korea's incursions and other nuclear and missile threats, prime minister Kim Jong-pil indirectly supported the engagement policy by showing his confidence in the government, thus limiting conservative anger. This political support for the sunshine policy by Kim Jong-pil and the ULD was helpful for Kim Dae-jung's consistent sunshine policy. Lee Hei-chang, leader of the opposition party (GNP), argued that without the ULD's help on the sunshine policy it would have been impossible for the Kim Dae-jung government to continue with its North Korean policy for three years (*Monthly Chosun*, May 2001).

However, the above discussion does not mean that the Kim Dae-jung government has a strong domestic political backing for engagement policy-making. This government actually maintains the weakest political base in South Korean since a direct presidential election was first organised in 1987. Compared to the GNP, which has a political base in the Kyungsang region, where more than 28 percent of total population live, and which held 165 seats in the National Assembly, Kim Dae-jung's MDP is a minority party with only 78 seats. Even with the 43 held by Kim Jong-pil's ULD, the coalition government controls only 121 seats. Thus, GNP remains the largest party in the South Korean National Assembly. In fact, a political break in the coalition between MDP and ULD in summer 2001 led to the step-down of Lim Dong-won, the architect of sunshine policy and President Kim Dae-jung's top-aide for North Korea policy, and thus harmed the government's consistent engagement with North Korea.

#### **4.2.iv Opposition party**

The policy of the majority opposition party, Grand National Party (GNP: Hannaradang in Korean), towards North Korea has generally reflected the conservative opinion contained

within the party. An anti-communist and anti-North Korea attitude certainly exists among members of the 'conservative meeting' (*Bosuduluimoim*), consisting of retired generals and former government officials, though there are certain moderate voices inside the GNP.

In fact, the GNP does not publicly oppose the general theme of engagement policy toward North Korea. As discussed before, the pursuit of gradual confidence building measures through economic, social and cultural interactions between the two Koreas has been Seoul's key North Korea policy direction along with military deterrence in the post-Cold War era. However, it has criticised the Kim Dae-jung government's engagement policy for its one-way and unconditional appeasement approach, which was based on wishful thinking, since it assumed that South Korea's consistent aid will decrease Pyongyang's military aggression and bring it into inter-Korean direct talks. Hence, GNP argues that selective engagement should proceed based on the strict give and take reciprocity rule (Hannaradang 2000: 1). Put differently, Seoul's engagement should be dependent upon North Korea's behaviours, which resembles previous South Korean governments' policies as presented in chapter 3.

Moreover, a significant difference between the two parties lies in the priority given to the North Korea policy. The GNP sees the deterrence of North Korea's military threats through the maximisation of Seoul's military capability as the top priority of North Korea policy, while the Kim Dae-jung government considers consistent engagement policy as an important long-term security policy with regards to post-Cold War North Korean security problems. This policy difference is based on their different perceptions and interpretations on North Korea's intentions and subsequent changes. GNP's views about North Korea are sceptical. It sees no prospect of North Korea's self-reforms in the near future or of its giving up of the military solution. Therefore, engagement with North Korea should be conditional on North Korea's good behaviour, such as self-reform and ending military provocations.

Otherwise, the sunshine policy only consolidates the authoritarian regime of Kim Jeong-il without improving the standard of living of the North Korean people (Hannaradang 2000: 5). GNP argued that North Korea's conciliatory gestures for growing inter-Korean exchanges are merely a tactical shift that does not change the North's fundamental strategies

aimed at undermining the South Korean system and unification on North Korean terms. For instance, the Mt. Kumgang tourism project initiated by the Hyundai group, discussed in chapter 6, was viewed by the Kim Dae-jung government and the ruling party as a sign of North Korea's reform and also as a significant bridge for cooperation and interdependence between the two Koreas. The GNP however viewed this in sceptical terms, as perhaps a dangerous project, due to the North Korea's possible utilisation of the tourism profits for its military build-up (Hannaradang 2000: 3).

These differences often brought about politically motivated debates and domestic ideological conflicts in the South whenever there was a tension in the Korean Peninsula. For instance, after a series of North Korean provocations, including the naval clash between the two Koreas, the detainment of a Mt. Kumgang tourist, the breaking off of high-level talks between the two Koreas in June 1999, some GNP congressmen reiterated their call for the suspension of all aid and exchanges to the North, attacked the government's persistence with the engagement policy despite North Korea's unchanged behaviours, and demanded the resignation of Lim Dong-won, Unification Minister at that time.

In fact, in addition to ideological differences over engagement with the North, domestic political games between the ruling and opposition party brought heated GNP opposition to the sunshine policy. In other words, the GNP has to raise a more hawkish voice against the current government's sunshine policy in order to satisfy its traditional conservative base in the South. Most GNP members understand that it should raise the tone of the debate in order to boost its appeal to conservative voters, who are its main political base, and thus it should oppose the government's somewhat liberal policy towards North Korea. One member of the GNP said "I understand that the consistent engagement policy is the best option for North Korea policy, at the same time, opposition against this policy is also necessary from the domestic political perspective" (Interview with a congressman of the GNP, Seoul, September 1999). Thus, the scope and nature of Seoul's comprehensive engagement policy towards North Korea is a highly contentious and emotional issue for ideological and political reasons.

Thereby, the GNP seemed determined to not allow the Kim Dae-jung government to get excessive political leverage on North Korea policy. This trend will continue towards the 2002 presidential elections. For instance, in their first meeting after the April national elections in 2000, President Kim Dae-jung and GNP leader Lee Hoi-chang agreed that any aid program or inter-Korean cooperative projects that would entail a financial burden on South Korean taxpayers must be approved by the National Assembly. For instance, the GNP introduced legislation requiring congress approval for any aid offer to North Korea involving a cash payment in excess of US\$500,000, any project that would involve the transfer of advanced technology to the North, or any program requiring that government controlled banks and government-owned corporations guarantee large-scale loans to North Korea (*Munwhailbo*, 28 June 2000).

#### **4.2.v Media**

The democratic transition in the South has created new actors in national security policy-making and thus North Korea policy. The mass media became a very influential actor in shaping the nature of North Korea policy (Moon and Paik 1998: 269). In fact, the North Korea issue is one area where media publicity can be generated far more easily than in the case of purely domestic political issues. Due to the difficulty in accessing information on North Korea, the mass media play a great role in shaping public opinion and thus policy decisions.

The prominent mass media groups in South Korea such as the “big three newspapers” (*Chosunilbo*, *Dongailbo*, and *Joongangilbo*) are inclined towards the conservative camp. They frequently raise concerns over North Korea’s continuing post-Cold War military threats, the damage of US-South Korea alliance, due to North Korea’s *tongmibongnam* policy, and the North Korean regime’s future opening up and reform. Thus, they have called for the Kim Dae-jung government to keep to a strict reciprocity rule in inter-Korean relations through numerous editorial sections. As discussed in chapter 3, they have greatly influenced the Kim

Young-sam government's policy toward North Korea through promoting conservative voices, significantly enough to change public perception and thus policy choice by the government.

Their conservative coverage of these issues continued during the Kim Dae-jung government, especially until after the inter-Korean summit in June 2000. Thus, growing inter-Korean tension, caused mainly by North Korea's military aggressiveness, became the conservative media groups' main source of attack on President Kim's sunshine policy. For instance, the *Chosunilbo*, Seoul's largest national daily and the most conservative newspaper, was pessimistic over the liberalisation of inter-Korean trade, and also the Mt. Kumgang tourism because it believed that North Korea was still an unreliable partner. At this juncture, the conservative media pointed out that "[u]nless North Korea turned out to be a truly reliable partner, the South needs to consider taking on tougher stances" (*Chosunilbo* and *Dongailbo*, 16 June 1999).

Meanwhile liberal media groups which support the comprehensive engagement policy have been growing but have a limited voice. *Hankyurae Shinmun*, for instance, has been a newspaper supportive towards the Kim Dae-jung government's sunshine policy. The newspaper not only argues for the necessity of comprehensive engagement with North Korea but also criticises other conservative newspapers for their hard-line posture towards North Korea. For instance, after the West coast naval clash in 1999 between the two Koreas, its editorial section pointed out that the government should proceed with the sunshine policy in order to calm down both sides, and it should not listen to exceedingly conservative opinion (*Hankyurae Shinmun*, 16 June 1999).

These different opinions became extended to ideological debates between liberal and conservative newspapers. The sunshine policy therefore has become a symbolic issue for this conflict.<sup>50</sup> In keeping with the process of democratisation, the ideological spectrum in the media became diversified. Liberal newspapers and media groups are growing, but there are

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<sup>50</sup> This Ideological conflict between liberals and conservatives in South Korea in the Post-Cold War era is also known as 'South-South Conflict' (*Namnamgaldung* in Korean).

still powerful conservative voices and media groups that could influence the current government's policy towards North Korea.

#### **4.2.vi Business community**

As the previous chapters have demonstrated, private sector economic exchanges with the North is an important means for South Korea's business-track diplomacy. Historically, the South Korean business community has performed a crucial role in preparing the ground for the South Korean government's engagement efforts with China. It pioneered improvements in Sino-South Korean relations. South Korean businessmen's private diplomacy was an important dialogue channel for the two countries' move towards the normalisation of bilateral relations. Also, South Korean chaebols' promise of massive investment in China played a crucial role in Seoul's effort to normalise relations with China during the Roh Tae-woo government. This example of the South Korean business community's involvement demonstrates that it has a potentially important role in promoting inter-Korean engagement (Moon Jae-chul 1993: 74-6).

In fact, the South Korean business community certainly has a potential business interest in economically engaging with North Korea. After inter-Korean economic exchanges were realised in 1989, South Korean firms, especially the chaebols, were eager to be involved in inter-Korean economic exchanges based on their calculated interests. First, South Korean companies expected that North Korea's abundant cheap labour and South Korea's idle machinery, especially after the huge bankruptcies caused by the financial crisis in 1997, could be combined to reduce production costs. In fact, the volume of inter-Korean CPT based on labour intensive and light industry is increasing every year. Also, half of those South Korean small and medium size companies are making a profit, which is very high compared with two-thirds of South Korean companies currently losing money from North Korean economic cooperation (KOTRA 2001b).

Second, the business community was prepared for the long-term business prospects of a future inter-Korean economic community. They predicted that the North Korean

economy would be part of the Korean market and become integrated into the Northeast Asian economic sphere regardless of the realisation of ultimate Korean unification (Hong Soon-jik 2000: 14). Based on this premise, they are exploring business opportunities, making personal connections and thus establishing business networks and understanding the culture of doing business with North Korea.

Third, the chaebols in particular are keen to explore their interests as massive investment in inter-Korean economic projects could improve companies' image for South Korean consumers. It has been an important marketing strategy of some chaebols to boost popularity among South Koreans by presenting the image of 'national corporations' rather than only profit-seeking companies. Thus, many big businesses have promised massive investment especially before the 1997 financial crisis even though they expected financial losses.

Fourth, North Korean born South Korean business leaders are more interested in investing in their hometowns in the North than other businessmen in the South are. As will be discussed in chapter 6, Chairman Chung Ju-young of Hyundai Group, who was born near the Mt. Kumgang area, was eager to help the weakened North Korean economy.

However, there are down sides for the South Korean business community in doing business with North Korea. Despite early hopes, several factors have hampered its deeper engagement with North Korea and thus influenced the Kim Dae-jung government's use of business-track diplomacy. Firstly, there are various problems with conducting business in the North. These problems include the existence of a bureaucracy which disregards market economy principles; the unreliability of energy supplies and poor transportation; the lack of skilled labour<sup>51</sup>; and also the uncertainty over investment safety caused by the inter-Korean economic agreements. Secondly, the 1997 financial crisis has directly impacted on the business community's stance towards North Korea, as discussed earlier. In fact, South Korean

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<sup>51</sup> For instance, some South Korean chebols doing business with North Korea confessed that the level of labour skills in North Korea is not much higher in comparison with that of Southeast Asian workers, but the wages are unexpectedly higher. This is because labour costs are decided by the North Korean authorities rather than the market economy (Interviews with Hyundai Asan's officials, Seoul,



companies, including chaebols, could no longer neglect the lack of short-term profits vis-à-vis long-term commercial and social incentives in the North. Thus, big businesses are now very cautious about long-term, large investments in North Korea. Also, the South Korean companies increasingly demand that both the South and the North Korean governments remove several obstacles to inter-Korean economic cooperation, by improving North Korea's infrastructure and investment system, and by providing financial support for these companies.<sup>52</sup>

## Conclusion

This chapter has looked at both international and domestic variables in Seoul's North Korea policy-making process that might explain Kim Dae-jung government's strong policy-making will towards active and consistent engagement with North Korea. First of all, the international environment regarding the engagement approach towards North Korea was not necessarily helpful for South Korea's consistent engagement with the North.

Surely, it appears that the Kim Jeong-il regime has consolidated political power in the North, thus decreasing the probability of sudden collapse of the North Korean system, while Pyongyang has shown positive signs of economic opening and reforms. Moreover, the US and Japan, who are important targets for North Korea's policy of engagement with the outside world, recognise the need for engagement measures to induce North Korea to participate in the international community, and to transform it into a more normal state.

However, the international constraints for Seoul's engagement with North Korea are more decisive. Pyongyang has continuously used military aggression and provocations to ensure its survival, and its economic reforms are very cautious and limited. Thus, the US and

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September 1999).

<sup>52</sup> Several factors could be blamed for discouraging South Korean companies' direct and large investments. A survey done in December 1997 by the Korea International Trade Association (KITA) among 50 firms with inter-Korean trade experience summarises the difficulties of investing in the North. Thirty-seven respondents listed their North Korean partners' ignorance of market economics as the prime obstacle to inter-Korean cooperation, followed by poor social overhead capital, risk associated with political change, and institutional deficiencies in North Korea's investment system (quoted from Cho Myung-chul and Zang Hyoungsoo 1999: 37).

Japan were not eager to engage with the North despite the recognition of the need for a soft-landing approach in dealing with the post-Cold War North Korean security problems. Moreover, these two countries' domestic opposition has limited their political will to implement active engagement measures with the North. Rather, the uncertainties of the post-Cold War security framework in East Asia, along with continuing nuclear and missile tensions between surrounding countries in the Korean Peninsula, led to a strengthened US-Japan military alliance as a means to deter possible military threats from North Korea and especially China's rising power in East Asia. These international constraints were not helpful for Seoul in initiating an active engagement toward North Korea.

Regarding domestic variables, the democratisation of South Korea during the 1990s played a positive role in South Korea's engagement policy toward the North by making possible the election of the progressive Kim Dae-jung government. Also, the advent of the financial crisis, from late 1997, made the South relax the absorption policy towards North Korea and seek co-existence with the North. These were favourable domestic factors for Kim Dae-jung government's utilisation of business-track diplomacy towards North Korea.

At the same time, democratisation produced new emerging actors that could influence Seoul's North Korea policy-making process. However, domestic actors were generally not favourable to President Kim Dae-jung's engagement with North Korea. The conservative media and the opposition party have been critical of Kim Dae-jung's sunshine policy, and demanded a hard-line approach toward North Korea. Moreover, the weak political base of the ruling party and the financial crisis in 1997 decreased Seoul's economic capability, in both the public and the private sectors, for implementing business-track diplomacy. Therefore, compared with previous South Korean governments, it is difficult to say that the overall international and domestic environments in which the President Kim Dae-jung government operated facilitated an active and consistent engagement with North Korea or were cordial to the government.

This means that the international and the domestic environments during the Kim Dae-jung government were not crucial causes for the Kim Dae-jung government's strong

policy-making will towards active engagement with North Korea. Thereby, it is necessary to investigate the factors that overcame the above external and internal constraints on implementing an active and consistent engagement policy towards North Korea. As discussed in chapter 1, decision-makers' beliefs, here, the South Korean President Kim Dae-jung's beliefs about the effectiveness of his 'sunshine' policy in addressing the North Korean security problems in the post-Cold War era, will be examined as the crucial reason for Kim Dae-jung government's strong policy-making will of business-track diplomacy towards North Korea as the South Korea's long-term security policy.

## **Chapter 5. Impact of President Kim Dae-jung's beliefs on North Korea Policy**

This thesis made the argument in chapter 1 that the actors' policy-making will to adopt business-track diplomacy can be influenced by factors such as the international and domestic environments and also the beliefs held by decision-makers. Chapter 4 demonstrated that the international and domestic environments were not necessarily favourable for the Kim Dae-jung government to implement an active and consistent engagement policy towards North Korea. Rather there were both external and internal constraints that could limit Kim Dae-jung government's engagement approaches with the North.

Hence, this chapter will examine South Korea's government change (from the Kim Young-sam government to the Kim Dae-jung government) as a possibly crucial factor in the North Korea policy changes under the Kim Dae-jung government. Put differently, the beliefs regarding unification and the North Korean issue held by President Kim Dae-jung can be the crucial factor for Kim Dae-jung government's consistent economic engagement with North Korea. This chapter will look at the contents of the beliefs held by President Kim Dae-jung, and show a causal relationship between these beliefs and the South Korean policy outcome regarding the post-Cold War North Korea security problem. As discussed in chapter 1, this chapter demonstrates how through three causal pathways – road maps, information screens, and institutionalisation – President Kim Dae-jung's beliefs actually influence South Korea's policy-making towards North Korea.

### **5.1 Origin of Kim Dae-jung's "sunshine policy"**

The current South Korean government's active engagement with North Korea is often depicted as a 'sunshine policy'. Paraphrasing a well-known Aesop's fable on wind and sunshine, it is argued that sunshine is more effective than strong wind in inducing North

Korea to come out of isolation and end confrontation. This idea of a sunshine policy towards North Korea became official after President Kim Dae-jung took office in 1998. As will be discussed later, because Kim Dae-jung has been an active supporter of gradual and peaceful unification between the two Koreas, and has proposed plans for a peaceful unification process for almost 30 years, his beliefs and interests regarding unification and North Korean issues could have an important impact on the current South Korean government's policy direction towards North Korea.

#### **5.1.1 Kim Dae-jung's "three-stage unification plan" in the Cold War era**

The evolution of Kim Dae-jung's "three-stage unification plan" of Korea could be divided in three phases. The first phase was in the 1970s. Put differently, Kim Dae-jung's beliefs and interests in South Korea's unification and North Korean policy can be traced back as early as 1971. When Kim Dae-jung was a presidential opposition candidate against the incumbent president Park Chung-hee, he announced two Korean unification proposals for the first time - the "four power guarantee of peace in Korea"<sup>53</sup> and the "gradual and peaceful unification of Korea through inter - Korean peaceful exchanges and cooperation". These proposals were made during the 1971 South Korean presidential campaign as election pledges against a background of intense political-military confrontation between the two Koreas. After his defeat in the presidential elections in South Korea, his early unification ideas were deepened and followed by the presentation of the "Three-Stage Unification Formula" in 1972 (Kim Dae-jung 1995: 300-4).<sup>54</sup>

His early "Three-Stage Unification Formula" was based on the concept of "peaceful coexistence" as the first stage, "peaceful exchanges" as the second stage and "peaceful unification" as the third stage. In order to facilitate the first stage of peaceful coexistence, he

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<sup>53</sup> That means the US, Japan, the Soviet Union, China (the four powers) would ensure peace and prevent war on Korean Peninsula by reciprocal concessions in which the US and Japan would recognise the legitimacy of North Korea as a state, while the Soviet Union and China would recognise South Korea.

<sup>54</sup> He announced his unification plan for the first time in press conference at the Foreign Press Club in Seoul, 13 July 1972.

proposed the simultaneous entry of the two Koreas into the United Nations, and the cross recognition of the two Koreas by the four powers, the US, the USSR, China, and Japan, as the instruments to guarantee 'peaceful coexistence' between the two Koreas. It was for the first time that a prominent South Korean political leader called for the international recognition of North Korea as a legal entity in the Korean Peninsula. In fact, after the division of Korea, South Korea's official position had been that North Korea was part of its territory. As the second stage of peaceful exchange, he stressed the need for the expansion of relationships in all social areas, including the exchange of reporters as well as exchanges in the economic, sports and cultural spheres.

His early unification idea was based on emerging international changes in the Far East. In fact, in 1969, soon after his election to the U.S. Presidency, Richard Nixon announced in Guam what came to be known as the 'Nixon Doctrine', in which he declared the relaxation of the Cold War structure. According to the Nixon Doctrine, the US government would gradually withdraw its ground troops from East Asia, and actually it did withdraw one U.S. army division (20,000 ground troops) from South Korea. Also, President Nixon began to engage with China and the Soviet Union in the early 1970s. Viewing these international changes in East Asia as an opportunity for peaceful coexistence between the two Koreas and criticising the Park Chung-hee government's North Korea policy as 'military oriented' and 'closed', Kim Dae-jung offered his unification plan for peaceful coexistence between the two Koreas through the relaxation of tension and the prevention of war on the Korean Peninsula.

However, considering the tense Cold War confrontations between the two Koreas and also the Park Chung-hee regime's 'construction first and unification later policy' towards North Korea, Kim Dae-jung's unification ideas were never allowed a proper hearing and evaluation in South Korea under the military dictatorship. For example, Kim Dae-jung's two proposals for the simultaneous entry of the two Koreas into the United Nations and the cross recognition of the two Koreas by the four powers were criticised as 'anti-nationalistic' and 'pro-communistic' by the Park Chung-hee government.

Furthermore, President Park Chung-hee suspended the constitution, declared a national emergency, and dissolved the National Assembly in October 1972 in order to guarantee his life-long presidency. Kim Dae-jung condemned these acts as anti-democratic and an anti-unification conspiracy. As a result, Kim Dae-jung, who was regarded as a strong rival opponent of the Park regime after President Park's narrow victory in the 1971 presidential elections, was subjected to continuing political repression - an assassination attempt, torture, imprisonment, political exile, and house arrest (Hahn Bae-ho 1999: 5).

The second phase in the development of Kim Dae-jung's unification plan began with its assumption of a systemic institutional approach to facilitate the national unification process in mid-1980s. In other words, although his formula was still based on the three basic principles of peaceful coexistence, exchange, and gradual unification as the implementation guidelines, it began to take into account the importance of the establishment of political institutions between the two Koreas to facilitate the unification process (see Table 5-1). Hence, he proposed the concept of a "symbolic or loose federal structure" as the first stage of his three-stage unification plan.<sup>55</sup> In the first stage, a "symbolic federal structure" would be established, composed of the representatives of the two Koreas. Each, however, would maintain their respective independent governments along with their opposing ideologies and systems, to which the two Korean governments would exercise their political power to discuss and implement matters of peaceful coexistence and exchanges between two sides. It was meant to be the primary political mechanism to boost and consolidate peaceful coexistence and exchanges between the two Koreas. Thus, in the second stage of his unification plan, the final transition could be to a 'federal structure' as political power was gradually transferred to the central government from the two independent governments of the divided Koreas.

However, his proposal was attacked again by the South Korean Chun Doo-whan military regime because it was similar to the North Korea's unification proposal of the

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<sup>55</sup> Kim Dae-jung announced publicly for the first time the concept of the federation of Korea on the 15<sup>th</sup> of August 1987, which is Korea's Independence Day from Japan's colonisation.

“Koryo Confederal Democratic Republic” (*Koryo Yeonbangje*), which called for a direct transition to a federal structure from the then division and confrontation between the two Koreas. As a matter of fact, North Korea has persistently adhered to this model since Kim Il-sung proposed the federal mode of Korean unification on the 10<sup>th</sup> of October 1980. However, the North Korean proposal of ‘Koryo confederation’ is much closer to the concept of ‘federation’, similar to the US government system. It is based on the notion of one nation, one unified state, two local governments, and two systems; diplomatic sovereignty and rights over military command and control are assumed to belong to one central government <sup>56</sup>

Despite clear differences between the Kim Dae-jung’s unification plan and that of North Korea, Kim Dae-jung’s unification proposal was distorted by the ruling military government so that it would seem identical to North Korea’s. This was a continuation of the South Korean military governments’ campaign to paint him “red”, and he was a victim of groundless accusations and persecution. For this reason, Kim Dae-jung made efforts to highlight the clear differences between his unification formula and the North Korean proposal. Thus, he formulated the principles of the “Three Nos”: no-violence, no-Communism, and no-anti-Americanism. For example, regarding the principle of “non-communism”, Kim Dae-jung argued that this principle has to be the basis of Korea’s unification. In other words, the unification through the communisation of Korea ought to be rejected, and the principle of democracy should be the ultimate goal for Korea. However, efforts should be made to provide opportunities for North Korea so that it can voluntarily accept the principle of democracy. To enable such a process of evolution, there has to be peaceful coexistence between the two Koreas, as well as dialogues and exchanges (Kim Dae-jung 1997a: 312).

As discussed in chapter 2, the South Korean military regimes’ anti-communism and anti-North Koreanism underpinned their absolute power and influence. The most effective means to discredit their opponents was to fabricate the charge that they, and this included

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<sup>56</sup> North Korea used the term ‘confederation’ as the meaning of ‘yeonbang’ in Korean, which, however, is translated as ‘federation’ in South Korea.



Kim Dae-jung, were pro-Communist. Thus, Kim Dae-jung's unification idea was unable to receive proper evaluation under the Cold War era. Thereby, no details or even the basic outlines of Kim Dae-jung's unification proposals were made known to the public. However, it is important to establish that during this period his three-stage unification plan was based on peaceful coexistence, exchanges with North Korea and gradual approach towards Korean unification. These ideas became the 'principled beliefs' of his unification approach and the sunshine policy in dealing with North Korea's security problems in the 1990s.

#### **5.1.ii Recognition of the three-stage unification plan in the 1990s**

However, from the late 1980s, Kim Dae-jung's three-stage unification formula was finally recognised as the blueprint for South Korea's official unification plan. In fact, due to a series of international and inter-Korean environmental changes, as pointed out in chapter 2, the Roh Tae-woo government announced South Korean government's first unification formula on the 11<sup>th</sup> of September 1989, which is called the "Korean National Community" unification plan.<sup>57</sup> This unification plan continued to be South Korea's official formula under the Kim Young-sam government.

As seen in Table 5-1, the South Korean governments' unification formulae of the Korean National Community (both Roh Tae-woo and Kim Young-sam's) is almost identical to the Kim Dae-jung three-stage unification plan in terms of the core principles of peaceful coexistence, exchanges, and gradual unification. The only difference is that the Kim Dae-jung plan sets up a confederation as a facilitating mechanism for peaceful coexistence and exchanges in the first stage, with a federation as the middle stage. In fact, the post-Cold War South Korean official unification plan under both the Roh Tae-woo and the Kim Young-sam governments recognised Kim Dae-jung's basic ideas about a gradual approach towards Korean unification, and the necessity of inter-Korean peaceful coexistence, exchanges and cooperation as the required processes and also the means to achieve institutional political

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<sup>57</sup> It was presented in the South Korean National Assembly speech delivered by President Roh Tae-woo.

integration between the two Koreas. For instance, Lee Hong-ku, Unification Minister under the Roh Tae-woo government, publicly admitted that the “Korean National Community” unification plan referred in many parts to Kim Dae-jung’s unification plan (Kim Dae-jung 1995: 325).<sup>58</sup>

As the then opposition leader, Kim Dae-jung stated that “[s]ince 1971, when I began the national debate in the midst of a presidential election, by proposing peaceful exchanges between the two Koreas, trade ties with the Communist bloc, a Four-Power guarantee of peace in Korea, simultaneous membership in the UN, the cross recognition, and the “Three-Stage Plan for Reunification”, I have been relentlessly victimised by continuing government persecution. Nearly two decades afterward, my proposals finally received a belated, yet reluctant, recognition from the Roh Tae-woo government”(quoted in Kim Dae-jung 1994a: 41)<sup>59</sup>

On entering the post-Cold War era, Kim Dae-jung announced the plan for the “Confederation of the Two Korean Republics” in April 1991 as the last refinement of his understanding of the first stage of his three-stage Unification Formula. What is significant here is that the previous expression of a “loose or symbolic Federal stage” was changed to the “Stage of Confederation”. This was partly because he hoped that the change of a term (from federation to confederation) would help to avoid a repeat of the 1980s ideological dispute. More importantly, he recognised that the first stage of unification should be well-defined, as peaceful exchanges and cooperations between the two Koreas would increase in the post-Cold War era. Also, he proposed several organs under the confederation that would carry out the measures to facilitate peaceful coexistence and exchanges, such as the “South-North Summit”, the “Council of South-North Confederation” which consisted of two sides’ representatives, and the “South-North Ministerial Council as the executive body”. Kim Dae-jung (1997a: 16) points out the significance of the confederation and argues that:

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<sup>58</sup> Lee Hong-ku stated this in Foreign Affairs and Unification Committee of the South Korean National Assembly on the 24<sup>th</sup> of February 1989.

<sup>59</sup> He delivered a speech before a Christian audience in Seoul on the 23<sup>rd</sup> of August 1994.

While the two Korean governments still maintain their status quo of opposing ideologies and conflicting political and economic systems, the confederation will mean an institutionalised mechanism that undertakes the tasks of peacefully managing the division as well as the efficacious overseeing of the integration process by the establishment of joint organisations for closer cooperation. . . Unlike the unification plan of the present South Korean government, which insists on the prior process of deepening reconciliation and cooperation as the essential precondition to an inter-Korean confederation, the confederation in our scheme is viewed as an essential machinery for inducing the new environment which facilitates the reconciliation and cooperation. . . [Therefore] we could soon begin the deliberate and calibrated process by beginning the confederal stage as an institutionalised attempt at inter-Korean harmony and cooperation.

Thus, from the mid-1980s to the early 1990s his unification formula has concentrated on the significance of establishing of institutional mechanisms in the first stage, either in the form of a loose federation or of a confederation, to boost the inter-Korean cooperations and thus the integration process. Kim Dae-jung believed that the first confederal stage could be established between the two Koreas without much difficulty, because his concept of a loose federation or confederation of the two Koreas guarantees each state's sovereignty; it is based on one confederation, two states, and two independent governments. Therefore, even if the two Koreas were faced with difficulties after the confederation was established, there would still be no special threat or burden for either side.

### **5.1.iii Sunshine policy as a “causal belief”**

The above discussions indicated that Kim Dae-jung developed his principle of gradual and peaceful unification between the two Koreas during the Cold War era, and this became his principled beliefs in dealing with North Korea and the unification issues when he became South Korean President. This section will show that in the third phase of the Kim Dae-jung's unification approach, in the post-Cold War era, Kim Dae-jung began to call his North Korea policy the “sunshine policy” and established his views on post-Cold War North Korean security problems and the direction of unification. The contents of the sunshine policy became his ‘causal belief’ and the ‘causal belief’ of the current Kim Dae-jung government in its policy towards Korean unification and North Korea. This section will also show how Kim Dae-jung's causal belief was established and what its content is.

### **5.1.iii.a Establishing the framework for the sunshine policy**

The third phase of Kim Dae-jung's unification approach came after his third defeat in the presidential elections of 1992. Then, Kim Dae-jung concentrated his energy more on the unification and the North Korean issues. He publicly announced his retirement from Korean politics<sup>60</sup> and established the Kim Dae-jung Peace Foundation (KPF) in December 1993. This think tank functioned as the supporting body for his activities regarding the unification and the North Korean issues. KPF carried on its research activities for Kim Dae-jung's "Three-Stage Unification" proposal as its pivotal post-Cold War project. Also, with the changing nature of the North Korean security problems in the post-Cold War era, Kim Dae-jung and the KPF began to define the views on North Korean situation, and specific strategies and programs for the current sunshine policy.

During this period, he specifically consolidated his views on North Korea policy. First, Kim Dae-jung recognised that because of the serious development of heterogeneous elements between the two Koreas during the last fifty years of division, there must exist at least minimal political confidence and pre-stage confidence building efforts between the two, before a South-North Confederation can be considered. In fact, this view is quite different from his early prediction that the confederation stage could be established without much difficulty between the two sides.

As Kim Dae-jung points out, the need of a stage of confidence building before entering into a confederation of the two Koreas is due to the external constraints, such as the emergence of North Korea's nuclear problem, and the continuing confrontational Cold War structure on the Korean Peninsula (Kim Dae-jung 1997a: 18-9). Therefore, the current sunshine policy of the Kim Dae-jung government is based on the recognition of a necessary pre-stage of peaceful reconciliation and cooperation between the two Koreas, and is aimed at an increase in confidence building activities between the two Koreas and a break up of the Cold War structure on the Korean peninsula through comprehensive engagement policies

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<sup>60</sup> He announced his retirement from politics after the presidential election result was made public on 19 December 1992, and returned to politics by announcing his comeback on 13 July 1995.

with North Korea in order to facilitate the process of entering the first stage (confederation) of his 'three-stage unification plan'.

Second, he began to argue that North Korea's economic opening up and reform, and thus acceptance of a market economy would be the precondition for further institutional political integration between the two Koreas. He repeatedly argued that a future unified Korea should be based on a market economy and liberal democracy.<sup>61</sup> He stated that "entering the stage of inter-Korean federation would be possible only when North Korea accept multiple political parties, democratic elections, the principle of market economy. . . unless the North recognised the principle of democratic competition and market economy, the Korean federation would be impossible" (quoted in *Monthly Chosun*, October 1993). This is based on his view of North Korea's inevitable economic opening-up and reform in the post-Cold War era and on his belief that a state's adoption of market economy is the first step towards a democratic society. Kim Dae-jung (1997a: 121), for example, argues that:

With deepening economic exchange and cooperation [with North Korea], we can expect changes in the North Korean economy. To begin with, the North Korean economy will overcome to a considerable degree its capital shortage and technological backwardness through its policy of open doors to the outside and will show greater vitality in its economic relations with the outside world. As the planned economic system gradually turns towards a market economy, the North Korean economy is expected to experience rapid growth, and the economic disparity with South Korea will begin to narrow. When and if such a development occurs, along with improved living standards for its citizens and the inevitable change as well in their world view and perception of the outside world, we would project that there would be inevitable demands for changes even in their political system. As these trends take root, it would be unavoidable for the North Koreans to tolerate or even accept the multi-party system and the principle of free elections. But most of all, through the process of economic exchanges and cooperation, the two Koreas will expand the scope of mutual understanding, and realise the natural bond of close interdependence. The maturing of these developments, not easy but steady and unstoppable, will have paved the foundation for the transition to the Second Stage (federation stage) of the unification process".

Thus, Kim Dae-jung sees North Korea's economic difficulties in the post-Cold War period as an opportunity for transforming North Korea into a market economy, and ultimately a democratic society. Thus, the current sunshine policy is aimed at inducing North Korea's

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<sup>61</sup> This view can be found in many of his speeches and interviews, from 1993 to 1995, when he

economic opening up, reform and systemic changes through active and consistent economic engagement with North Korea in order to facilitate the integration process between the two Koreas.

Third, the Kim Dae-jung government's views on North Korea and the operating strategies of the current sunshine policy, which are the main policy changes compared to previous South Korean governments, were already formulated during this period. These perceptions of North Korea and corresponding strategies could be found in his books and numerous speeches written before he became the president of South Korea in 1998. As will be discussed in the next section, his operating strategies – the separation of economics from politics (*Jeongkyunghunri*), the package deal solution, and the face-saving strategy - were already proposed in this period. The nuclear crisis in the 1990s, in particular, seemed to give Kim Dae-jung the opportunity to establish the framework for his current sunshine policy towards North Korea.

#### **5.1.iii.b Use of the term “sunshine policy” and the logic of historical analogy**

During this period, Kim Dae-jung began to use the term ‘sunshine’ as his trademark North Korean policy, and it became his causal belief; he saw it as the right strategy to deal with the North Korean issues in the post-Cold War era. He used it as an analogy in order to persuade the public and other states to pursue a comprehensive engagement policy in dealing with North Korea. Kim, for example, argued in a speech at the Heritage Foundation in Washington D.C. 1994, that the US must be patient and stick to the ‘sunshine policy’ which was the only effective way to deal with isolated countries like North Korea (Kim Dae-jung 1994b). The term ‘sunshine policy’ was also used as a catch-all phrase to get attention during his 1997 presidential campaigns.

During this period, he began to use historical events to justify the need for a sunshine policy towards North Korea. On the 10<sup>th</sup> of October 1993, Kim Dae-jung discussed the North Korean issues with Professor Robert Scalapino. He argued that various exchanges with

communist North Korea would lead North Korea to be less military oriented and transform it into a normal state. He stated that:

After World War II, we dealt with communist countries in two ways: one with a kind of 'sunshine policy'. We dealt with the Soviet Union and East European countries through diplomatic relations, economic cooperation, cultural exchanges, tourism, and everything. So we succeeded in making these countries become non-communist countries after communism collapsed in those countries. But with others we had a kind of a 'strong stormy' policy. We failed in Vietnam and were defeated. We still have not succeeded in making Cuba and North Korea changed (Kim Dae-jung 1994a: 48-9).

Moreover, regarding the German unification, he pointed out that the West German policies towards East Germany were more important than external factors, such as Gorbachev's *Perestroika* and the international cooperation of Western and Eastern European countries. According to him, the internal factor was the West Germany's consistent efforts to engage Eastern Germany, through economic, social, and cultural exchanges. German Unification was realised because of the consistence of Willy Brandt's 'Ost Politik', which helped to bring change, not the confrontational policies of the West German governments in the 1950s (Kim Dae-jung 1993: 11-3).

Given this strong conviction about the effectiveness of 'sunshine' towards North Korea, after his election, it became the official North Korea policy of his government. Addressing the London University School of Oriental and African Studies on 4 April 1998, President Kim stated that:

It is now time for big changes in inter-Korean relations. This is because a new administration has been inaugurated in the South which is pursuing peace and cooperation with a flexible and sincere attitude, while maintaining a firm security posture. . . I have been steadfast in advocating what I call a sunshine policy. . . which seeks to lead North Korea down a path toward peace, reform and openness through reconciliation, interaction and cooperation with the South. As President, I will carry out such ideas step by step" (Office of the President 1999).

After Kim Dae-jung became President, he continued to use historical examples to persuade the US government to pursue an active engagement policy towards North Korea. In an interview with Washington Post, on 11<sup>th</sup> of June 1998, President Kim pointed out examples of policies toward communist countries, such as US President Richard Nixon's visit

to China, the U.S. policy of détente with the Soviet Union in the 1970s, and the post Cold War U.S. engagement with Vietnam. He argued that the United States lost the war but now through diplomacy and economic development the US have made Vietnam almost a pro-American country (*Washington Post*, 12 June 1998).

Of course, there are different explanations as to why communist countries have collapsed and changed. For instance, some people believed that the collapse of the Soviet Union was caused by its domestic economic failure. Moreover, military confrontation in the Third World countries and the arms build-up in the pace against the United States, especially during the Reagan administration, actually facilitated its collapse. Therefore, the confrontational policy of the U.S. rather than the engagement policy brought about by Gorbachev's *perestroika* and *glasnost*, may have caused the collapse of the Soviet Union, and the whole of European communist bloc.

On the one hand, Falin, a Soviet diplomat, and Willy Brandt, the former West German Chancellor, saw *Ostpolitik* as a crucial factor for the Soviet change in thinking. On the other hand, former West German chancellors Helmut Schmidt and Helmut Kohl believed that the crucial factor in forcing a reform of the Soviet was US's continuing military pressure (Craig, 1994: 162-7). Whichever argument is right, Kim Dae-jung became convinced that the changing international environments and North Korea's economic difficulties in the post-Cold War were certainly an opportunity for an active and consistent sunshine policy, rather than a containment policy, to facilitate North Korea's transition to a market economy, and thus to a democratic state, and the realisation of his three-stage unification process.

In sum, the current South Korean sunshine policy is based on the core principles of peaceful coexistence, exchanges, and a gradual unification process, as explained in the grand plan of Kim Dae-jung's three-stage unification formula that has evolved over almost thirty years. His ideas, though ignored in the Cold War era, were gradually incorporated into South Korea's official North Korea policy in the post-Cold War period. Based on his three-stage unification plan, he proposed the 'sunshine approach' as a set of strategies to deal with post-Cold War North Korean security problems and also to facilitate his three-stage unification



plan. Put differently, the sunshine policy is the instrument for achieving Kim Dae-jung's goal of systemic economic changes towards a market economy in North Korea and deep political integration. He believes that as sunshine policy measures take effect, sooner or later, North Korea will change itself from within. Thereby, as argued in the discussion about the causal pathways through which beliefs influence foreign policy outcomes in chapter 1, the sunshine approach became Kim Dae-jung government's causal belief or road map for addressing the post-Cold War North Korean security problems and for achieving President Kim's long-term goal of a three-stage peaceful unification of Korea.

The history of unification proposals by the South Korean governments and Kim Dae-jung is summarised in Table 5-1.

**Table 5-1: South Korean unification proposals**

	South Korean governments	Kim Dae-jung
1950s	March to North by force; Unification through Victory over Communism under the Rhee Sung-man government	
1960s	Construction First and Unification later, Total security policy, no detailed unification plan under the Park Chung-hee government	
1970s	Anti-communism policy and continuing Construction First and unification later policy, no detailed unification plan under the Park Chung-hee government.	<p>The three stage unification plan</p> <p>First stage: peaceful coexistence; simultaneous entry of two Koreas into United Nations; and four power guarantee for Korean Peace.</p> <p>Second stage: peaceful exchange; inter-Korean exchange and cooperation in all areas</p> <p>Third stage: peaceful unification: opposition to unification through military means.</p>

1980s	<p>Anti-communism policy, National reconciliation plan: recognition of each system, inter-Korean exchange and cooperation, military tension reduction.</p> <p>But no detailed unification plan under the Chun Doo-whan government.</p>	<p>The three-stage unification formula</p> <p>First stage: phase of peaceful coexistence and exchanges under the 'loose federal structure' (one loose federation, one nation, and the two independent Korean governments continue to being charge of their foreign relations, internal and military affairs)</p> <p>Second stage: the phase of federation: the federal government in charge of foreign relations, defence, and major internal affairs while two Koreas retain their own regional governments.</p> <p>Third stage: The complete unification</p>
Late 1980s-1997	<p>The three-stage unification formula for "Korean National Community" by Roh-Tae woo and Kim Young-sam governments</p> <p>First stage: the stage of reconciliation and cooperation; recognition of two political entities; expansion of exchanges and cooperation; political confidence (1 Nation, 2 States, 2 Systems, 2 Independent governments)</p> <p>Second stage: the stage of South-North confederation, build-up of conditions for political integration by establishing and developing a economic and social community (1 confederation, 1 Nation, 2 States and 2 Independent governments)</p> <p>Third stage: unified Korea</p>	<p>1991: The three-stage unification formula</p> <p>First stage: the stage of inter Korean confederation; peaceful coexistence and expansion of peaceful exchanges and cooperation (1 Confederation, 1 Nation, 2 States, 2 independent governments).</p> <p>Second stage; the stage of federation (1 Nation, 1 State, and 2 Autonomous regional governments)</p> <p>Third stage: complete unification.</p> <p>From the 1993:</p> <ul style="list-style-type: none"> <li>-The establishment of Kim Dae-jung Peace Foundation (KFP)-for research on specific programs and guidelines for the implementation of 'sunshine policy.'</li> <li>-Recognition of the need of pre-stage of minimal confidence-building between two Koreas for entering confederation stage, which is first stage of Kim Dae-jung's unification plan.</li> </ul>

Source: data is based on Chung Ku-sup (1998) and Kim Dae-jung (1997a).

## 5.2 Kim Dae-jung government's sunshine policy

### 5.2.i Views on North Korea and the international security environment

Seoul's North Korea policy is based on its view of the North. As pointed out in chapter 1 in the discussion on the impact of beliefs on the information screening process, President Kim Dae-jung's belief in sunshine approach impacted on the current South Korean government's

basic perceptions regarding North Korean issues and were established long before he became president in 1998.

The Kim Dae-jung government's three basic perceptions on North Korea's intention and behaviours are as follows. First, the North Korean system is already a failed system; however, there are slim chances for North Korea to collapse any time soon. Second, economic reform and openness of North Korea are inevitable and the change has already begun. Third, in spite of these positive developments, the North's military-first policy and military threats will continue (Lim Dong-won 1999).

Regarding the first assumption, no South Korean government doubts that North Korea's economic system has failed, and its impact on North Korea is enormously painful. However, the prospect of North Korea's collapse in the near future divided scholarly opinion, as well as North Korean policy-makers, during the 1990s. Some U.S. and South Korean specialists on North Korean affairs anticipate North Korea's short-term collapse because of its economic failure (*Sisa Journal*, 13 January 2000). As pointed out in chapter 3, based on this assumption, the Kim Young-sam government tried to contain and isolate North Korea, especially after the death of Kim-Il-sung in 1994 and following North Korea's food crisis in 1995.

However, the current Kim Dae-jung government saw North Korea differently and argued that there is actually no chance that North Korea might crumble in a short period of time. A key advisor of the Kim Dae-jung government's North Korean policy, Lim Dong-won, argues that North Korea would not collapse due to its economic difficulties, and that the Western collapse theory may not apply because its system is different from any other communist countries, such as the former Eastern European socialist states. North Korea is similar to a 'collective camp society under an authoritarian rule'. Thus, individual discontent cannot escalate into social discontent, and no organised anti-governmental force can emerge. At the same time, surrounding countries, especially China, do not want to see the North collapse. Lim stated that "given such a perception, the Kim Dae-jung government rejected the containment policy towards North Korea. Containment policy can only work if the North

Korea's collapse is imminent. It can accelerate the collapse. However, if this is not the case, containment often results in prolonged dictatorship and a worsening of people's pain" (Lim Dong-won 1999).

As demonstrated in chapter 4, it can be argued that the Kim Dae-jung government's positive view towards North Korea's future survival might have been influenced by the external change of Kim Jeong-il's successful succession to his father, Kim Il-sung, from late 1997. Also, the emergence of the 1997 financial crisis and the following economic difficulties in South Korea greatly decreased Kim Dae-jung government's interest in the collapse of the North Korean regime, and thus in achieving sudden unification on its terms, because South Korea does not want to handle the collapse of the North at a time of financial difficulty.

However, the fundamental difference between the current government and the previous Kim Young-sam government is that the "collapse" of the North and the sudden unification by the South are clearly not seen as being in the South's interest. Put differently, Kim Dae-jung's desires for peaceful coexistence and the rejection of sudden reunification were expressed even before the financial crisis in 1997. Regardless of the impact of the financial crisis, Kim Dae-jung government's peaceful coexistence policy would have operated under his leadership. President Kim Dae-jung himself has repeatedly declared his policy to be one of peaceful coexistence and criticised the former Kim Young-sam government's collapse policy towards North Korea as a very risky and destructive approach for all Koreans caused by lack of unification thought by the Kim Young-sam government (Kim Dae-jung 1997b).

For instance, Kim Dae-jung (1994a: 39-40) delivered a speech before a Christian audience in Seoul on 23 August 1994:

There is a point about which we cannot afford the slightest error of judgement. That is, we ought to understand most clearly and unequivocally that we should under no circumstances adopt a policy of absorption of North Korea in our attempt to unify the nation. Absorption is neither desirable nor possible. If we were to absorb North Korea, an economic calamity of the worst kind for South Korea would be unavoidable. . . Besides, the seriousness of the "spiritual/psychological" conflict has exceeded what was once predicted. . . Our case is not even comparable [to the German case] because of the extreme hatred and hostility that have resulted from the nasty internecine [Korean] war. The problem, therefore, of the intensity of conflict that could be expected is beyond imagination. Will we be able to handle the enormous friction and conflicts, and will we be able to live in harmony? It will not be

possible. Reunification through absorption, therefore, should not be pursued for economic as well as spiritual reasons.

Regarding the second assumption about the prospect of North Korea's economic reforms and openness, the Kim Dae-jung government believes that North Korea has been steadily undergoing reforms and opening, and there is no alternative for them. His optimism can be traced back to the nuclear crisis in early 1990s. It was based on the North Korean situation after the Cold War era. He argues that the reasons for North Korea's intention to improve relationships with Western countries, despite enormous political threats to the North Korean system, are as follows. First, North Korea's economic situation is extremely bad. Second, Kim Il-sung was very willing to settle problems with the West and the South before his death to ensure his son's take-over. Third, North Korea is somewhat confident that a policy of 'opening the door' could work, owing to the example of the Chinese economic opening-up and reform. Hence, the North Korean leadership sees that economic progress is possible without damaging socialism (Kim Dae-jung 1994a: 50-1).

Kim Dae-jung's early perception continued to be the basis for his government's view of North Korea. North Korea has certainly shown positive signs for reforms and opening, however, it has been very slow, unlike the East European Communist countries. Thus, some people are sceptical about the prospect of North Korea's economic reform. They assume that the Pyongyang regime values most highly its own survival and that it fears that any meaningful reforms would have the same fatal consequence for itself as reforms had for the former socialist nations in Eastern Europe. Moreover, the ruling elite, especially the military, in North Korea may believe that survival does not necessarily require a change of direction; thus it will pursue a status quo strategy which involves tightening socio-political control by intensifying indoctrination and surveillance in the domestic arena and maintaining tensions in the Korean Peninsula. Thus, the current economic liberalisation of the North is minimal and limited to segregated areas such as special economic zones and tourist zones (Kim Choong-nam 2000: 254-9). This view of Pyongyang's future choice is well reflected in the South

Korean opposition party's (GNP's) basic perception of North Korea, as discussed in chapter 4.

However, the Kim Dae-jung government saw North Korea as making progress slowly, and its reforms and opening as being inevitable. Lim Dong-won (1999), the Minister of Unification of South Korea at that time argued that North Korea is unavoidably undergoing a change now. Unlike the East European Communist bloc, North Korea seems to be going through the Asian Communist model as is the case with China or Vietnam, that is, a model of steady change of system.

Also, Minister Lim gave the following examples in support of his interpretation. First, North Korea pursued a relationship with the United States which it once called an 'archenemy', and relinquished its one Korea policy, as it joined the United Nations together with South Korea. Second, it sought to introduce Western capital and technology by establishing a special economic zone, and agreed on the North-South Basic Agreement that calls for reconciliation. Third, more recently, it revised the Constitution to introduce a socialist market economy. The Constitution has employed the idea of a self-supporting accounting system, and the concepts of cost, price, and profit, core concepts for a capitalist market economy. Moreover, more than 300 open markets have sprung up across North Korea, and cadre officials have begun to undergo training abroad to study market economy principles and capitalist economies (Lim Dong-won 1999).

This optimistic view can be found in President Kim Dae-jung's reaction to Kim Jeong-il's remarks in China. In fact, when Kim Jeong-il visited China in January 2001 for six days, Kim Jeong-il announced that the big changes have taken place in China because of Chinese reform and openness drive. Also, he said that the policies of the Chinese Communist Party were correct. Regarding these remarks, President Kim Dae-jung stated in a meeting of the National Security Council (NSC) that "this shows that North Korea is deeply interested in the Chinese-style reform and open-door policy and it is trying to become a second China, and politically North Korea will continue to uphold socialism, but economically, it may take the

road toward reforms and openness” (quoted in *Far Eastern Economic Review*, 8 February 2001: 27-8).

Regarding the third assumption about North Korea’s military-first policy, some people are seriously worried not only about North Korea’s intention, but also its capabilities. The opposition party and the conservative media groups in the South argue that North Korea’s clandestine nuclear and missile program as well as continuing military aggressiveness towards the South well indicates the unchanging nature of North Korea’s intention to unify South Korea by force. Also, even though the capability of the North Korean military is diminishing due to economic hardship, it is still capable of attacking Seoul and causing enormous damage to South Korea. Thus, one-way economic aid provided by South Korea without receiving North Korea’s concessions, such as substantial military cutbacks, will not induce North Korea toward economic reforms and openness as Kim Dae-jung wished, but gave it economic benefits to upgrade its military capability vis-à-vis South Korea (*Chosunilbo*, 15 September 2000).

However, the Kim Dae-jung government saw North Korea’s military-first policy and aggression in terms of North Korea’s survival tactics and domestic politics. Seoul’s first argument is that in the face of economic hardship and diplomatic isolation in the post-Cold War era, Pyongyang’s military aggressiveness is understandable. Kim Dae-jung saw the international crises caused by North Korea’s development of nuclear weapons and missiles during the 1990s as signs of its economic and diplomatic insecurity rather than as a reflection of North Korea’s unchanging intention of communising the South by force in the post-Cold War environment. He pointed out that North Korea’s strategies for communising the South through the use of force began to change quietly in the early 1990s, giving the examples of Pyongyang’s acceptance of simultaneous membership for the two Koreas in the UN and the recognition of two political entities on the Korean Peninsula, which Pyongyang had opposed over the previous forty years.<sup>62</sup>

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<sup>62</sup> The two Koreas recognised each other as legitimate political entities through the signing of the “Agreement on Reconciliation, Non-Aggression, and Exchange and Cooperation” in December 1991.

For instance, he stated in the US National Press Club on the 12<sup>th</sup> of May 1994 that “I am convinced that North Korea’s goal in this adventure [of nuclear threat] is not to develop nuclear weapons but to realise its number one foreign policy objective: the normalisation of diplomatic relations with the United States. Pyongyang desperately hopes through diplomatic relations and economic cooperation with the West to escape from the hopeless economic situation and the extreme international isolation so that it can pass a stable regime” (Kim Dae-jung 1994a: 12).

The second argument is that North Korea’s military provocations, such as the naval clash in the West Coast and several spy infiltrations while engaging with the South economically, could be regarded as bureaucratic routine operations or as a reflection of domestic political disputes between ‘hard-liners’ and ‘moderates’ in the North, rather than North Korea’s unchanging principle of unification by force. It understands Pyongyang’s continuing military provocations as routine operations regardless of the general trend of inter-Korean relations because there are bureaucratic divisions in Pyongyang over South Korean policy. President Kim Dae-jung pointed out that the escalating tension in the Korean Peninsula, which was mainly caused by North Korean military routine operations that went wrong, only helped the hawkish position in the North. He stated that:

We must change our policies to strengthen the position of the moderate forces in North Korea and must not continue to pressure North Korea to the point where it feels that it has reached the end of its rope and where it might imagine that it has nothing to lose even launching a military attack against the South. We must adopt a positive policy which will strengthen the position of the moderates who advocate openness. We must not provide an excuse to the hard-liners who advocate military adventurism in the North (Kim Dae-jung 1993: 51).

Moreover, he urged President Clinton to lift sanctions against North Korea for the purpose of encouraging “moderate elements” in Pyongyang. In fact, this is quite a different analysis from that of many people who assume that Kim Jong-il enjoys absolute power to coordinate the government organs, and that there are no policy conflicts inside North Korean agencies (*New York Times*, 2 June 1998: A3; *LA Times*, 10 June 1998: A4).



### 5.2.ii Flexible reciprocity: operational strategies

Based on Seoul's perception of North Korea and due to the external and internal constraints on consistent engagement with North Korea, as demonstrated in chapter 4, the Kim Dae-jung government adopted three operational strategies for sustaining the sunshine policy. The most basic principle of these strategies is 'flexible reciprocity' in the sequential order of the inter-Korean interactions. Lim Dong-won, a key figure in the sunshine policy, explained 'flexible reciprocity' as the following: (i) easy tasks first, difficult tasks later; (ii) economy first, politics later; (iii) non-governmental organisation first, government later; (iv) give first, take later (*Hankookilbo*, 12 March 1999).

This represents a profound change in the management of inter-Korean relations. Past governments failed to overcome the inter-Korean stalemate precisely because of their rigid adherence to the principles of government first, civil-society later, political-economic linkage, and the primacy of rigid reciprocity, although they shared the rationale of engagement as the optimal policy towards North Korea. Thus, the sunshine policy can be characterised as being incremental, pragmatic and functionalist in dealing with the North.

The first strategy is Seoul's adoption of the separation of economic exchanges from inter-Korean politics (*Jeongkyungbunri*). Previous governments were preoccupied with the primacy of politics and its linkage to the economy. However, such an attitude entailed structural barriers to the promotion of inter-Korean exchanges and cooperation, not only because of North Korea's continued military aggressiveness but also because of a negative backlash from South Korean society and at the international level. Temporary improvements in inter-Korean relations through socio-economic exchanges were instantly wiped out by new political constraints or sporadic military provocations by the North, producing a chain of distrust and hostility.

The Kim Dae-jung government however is attempting to sever the mechanism of negative re-enforcement between the two by pledging itself to the promotion of economic exchanges and cooperation even if the North engages in military campaigns; for instance, the naval clash on the West Coast did not block the pursuit of economic exchanges and

cooperation. As discussed before, the principle of flexible reciprocity greatly enhances inter-Korean economic cooperation and also non-governmental social and cultural exchanges. It is the functional flexibility that distinctively differentiates the sunshine policy from the previous governments' North Korean policy.

For instance, despite the collapse of the Fertiliser talks in Beijing in April 1998, President Kim Dae-jung announced that in government level contacts, he would stick to the principle of reciprocity, but not in regard to contacts and aid at the private level (*Korea Times*, 29 April 1998). It is believed that the Kim Dae-jung government was trying to negotiate simultaneously with both internal and external actors. It promised to the domestic public to keep the reciprocity rule at the governmental level. At the same time, it showed positive signs of flexible reciprocity in the position of the South Korean private sector towards Pyongyang. Another example was the response to North Korea's provocative naval action in the West Sea in June 1999. The Kim Dae-jung government carried out the necessary military response towards the North Korean naval forces, but did not permit this to contaminate the validity of inter-Korean exchange and cooperation. Thus, it could be considered that the military response towards North Korea was for domestic considerations, and the continuation of inter-Korean exchanges was for Pyongyang.

The second operating strategy is international collaboration on the engagement policy towards North Korea. Although Korean leaders have long understood that the Korean conflict and unification should be resolved by and for Koreans themselves, the Kim Dae-jung government recognised the importance of international collaboration with major actors surrounding the Korean Peninsula. Seoul seems to have three fundamental reasons for this international effort.

First, it believes that international collaboration would help North Korea's openness and reform. The United States' active involvement in engagement in particular meant enhancing North Korea's change, because Seoul believed that North Korea's insecurity mainly came from the United State's unwillingness to give positive security assurances to North Korea. In fact, North Korea is still considered as a rogue state by US policy-makers.

Without resolving its insecurity, it would be difficult for North Korea to give up the military solution. Second, in the face of financial crisis and domestic resistance to large-economic projects in the North Korea, Seoul needed to find international financial support to enhance North Korea's opening and reform. Third, solid international cooperation and support is a means of expanding the President Kim's political manoeuvrability in maintaining his 'sunshine policy' towards North Korea. For domestic support and legitimacy of its constant engagement policy towards North Korea, international support is absolutely necessary.

For the management of the North Korean security problem at the international level, the Kim Dae-jung government has been calling for two practical measures: North Korea's diplomatic normalisation with the United States and Japan on the one hand, and the creation of a international milieu favourable to North Korea's economic opening and reform on the other. Hence, Kim Dae-jung proposed a 'package deal' to achieve these goals. In fact, Kim Dae-jung first proposed the 'package deal' as a way to resolve the North Korean nuclear problem. He argued that, in a package deal, the US should make the necessary concessions to North Korea such as the establishment of diplomatic relations between the two countries, a positive guarantee of North Korea's security, including the suspension of Team Spirit, and the nuclear assurance towards North Korea, while North Korea would guarantee the transparency of its nuclear program (Kim Dae-jung 1994a: 72-3).<sup>63</sup>

Given the frustrations of maintaining a Cold War structure on the Korean Peninsula, and the lack of US and Japanese will for engagement with North Korea, President Kim Dae-jung again proposed a package deal between the US and North Korea when he became President of South Korea in 1998. According to deal, the US and the international community would lift existing economic sanctions on the North, and facilitate North Korea's access to international capital through its membership in multilateral lending institutions, such as the IMF, the World Bank, and the Asian Development Bank, as well as foster the inflow of

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<sup>63</sup> This source is a speech given at the American Enterprise Institute, Washington, D.C. on the 11<sup>th</sup> of May 1994.

private foreign investments in the North, while North Korea would stop developing nuclear and long-range missiles and exporting them to "rogue states" (*Dongailbo*, 7 May 1999).

The third operating strategy is sending a coherent message to Pyongyang of its intentions for peaceful coexistence. The Kim Dae-jung government attributes the failure of previous engagement policies mainly to North Korea's intransigence; it does not, however, deny the contribution of previous South Korean governments to this failure; their inconsistent signals prompted the North to doubt the South's real intentions. For instance, when Kim Il-sung died in July 1994, although many South Koreans welcomed the news with some sort of disappointment because of the expectation they had that a North-South summit would be held in the same month, they soon got entangled in a polemic debate over the identity of Kim Il-sung. The Kim Young-sam government in the end named Kim Il-sung an aggressor and anti-national foe, after which outraged North Koreans refused to talk to the South (Kim Tae-hyun 1999: 80). This may explain why the Kim Dae-jung government has repeatedly expressed a desire for reconciliation and dialogue with the North while renouncing any intention to undermine or absorb North Korea. As a foreign policy towards North Korea can be meaningful only when North Korea reacts positively, it is important to induce Pyongyang's positive response.

Saving face (one's standing in the eyes of the group) is an important factor in non-western society, and saving face can be an important cultural dimension in international relations, especially at the negotiation table (Cohen 1991: 24-5). In inter-Korean relations, provocative rhetoric and condemnation for each other's legitimacy have often cooled down relationships and created tensions between the two countries. Kim Dae-jung seems to know the importance of the cultural dimension to North Korea. He stated at the National Press Club in May 1994 that:

To an Asian, face-saving is as important as saving his life. Instead of the give-and-take method of the West, an East Asian, if he feels he is treated with indignity, he might reject the deal altogether, no matter how advantageous to him. To formulate policies based on an accurate understanding of these characteristics of the Asian sensibility is to assure the success of American foreign policy and of gaining friends in the Asian-Pacific region...Face-saving is even more important in dealing with North Korea, a country ruled for five decades by one family with absolute authority.

We must make good use of this point in dealing with North Korean nuclear program (Kim Dae-jung 1994a: 15-6).

It was quite clear that President Kim Dae-jung was making use of this point when dealing with Kim Jeong-il. For instance, in an interview with Japan's Broadcasting System (BS) on 9 February 2000, he said that General Secretary Kim Jeong-il had displayed the sense of judgement and insight of a leader. His statement is believed to have been conducive to extending the latitude of establishing policies to open-door policy advocates and the North Korean officials (Park Kun-young 2000: 19). His praise of Kim Jeong-il has been repeated despite criticism from conservative forces in the South. Moreover, after the two armed infiltration incidents on the East Coast, the Kim Dae-jung government announced that as of the 25<sup>th</sup> of July 1998, it would not use the term "sunshine policy." The government believed that the term might be taken by North Koreans as an another expression of the absorption plan, because the metaphor had generated some controversy including negative reactions in the North Korean media (*Joongangilbo*, 25 July 1998).

It is difficult to measure whether this strategy actually worked in terms of North Korea's response. However, it is clear that North Korea seems to understand the sincerity of the sunshine policy. For instance, North Korea became suspicious of the sunshine policy toward the North when fertiliser talks in Beijing were stalemated. The North denounced the principle of reciprocity as a tactic to aggravate inter-Korean division and confrontation. However, North Korea appeared to accept at least economic exchanges and cooperation.

The above discussion demonstrates that President Kim Dae-jung's strong beliefs on the effectiveness of sunshine policy towards North Korea as a means to decrease the post-Cold War North Korean security problems and induce North Korea to engage with the outside world and to adopt the principles of a market economy have influenced the current South Korean government's views of and related strategies towards North Korea. As pointed out in chapter 1, President Kim's beliefs about the sunshine policy can be used as 'information screens', which is one of the three causal pathways between beliefs and policy outcomes, to interpret the current Korean Peninsula security environments and incoming informations on

North Korean issue and thus to design the operating strategies. The major characteristics of the Kim Dae-jung government's views on North Korean information are summarised in Table 5-2.

**Table 5-2: Information screens: the perception gap regarding North Korean issues**

Entering Information	Interpretation and solution of the Kim Dae-jung government	The other perceptions by hard-liners in the US and South Korea
North Korea's continuing economic difficulties in 1990s	North Korea is a failed system, however, it sees little chances the North collapse any time soon.	Kim Young-sam government saw that North Korea's collapse could come very shortly.
North Korea's prospect of economic reform and opening	North Korea's economic reform is inevitable and is undergoing a change now.	Some of the US and South Korean scholars predict that for regime survival, economic opening-up and reform will not be carried out by North Korea.
North Korea's continuing spy intrusions toward South Korea in the middle of improving inter-Korean economic exchanges	There is bureaucratic division in the North. These are routine operations going wrong.  Economic engagement with the North can increase the political power of 'moderates' in the North, which is good for Pyongyang's voluntary economic reform.	North Korea's unchanged unification policy towards South Korea.  Engagement only helps North Korea's military upgrade.
North Korea's development of nuclear weapons and ballistic missiles	It is a negotiation leverage to acquire security guarantee and economic concession from the U.S. Also it is North Korea's important export to acquire hard currency	The ambition of North Korea is to acquire nuclear capability  It is motivated by North Korea's military.
North Korea's <i>tongmibongnam</i> policy	For regime survival, United States is No. 1 target for improving relationships. Bypassing the South is understandable.  Improving relationships between the two countries is good for North Korea's changes	By-passing the South can not be neglected. Improving relationships between the two countries should be done after there is meaningful progress in inter-Korean relations.

### **5.3 Control over the decision-making system**

Previous discussions showed two causal pathways through which President Kim Dae-jung's belief in the 'sunshine policy' influenced North Korea policy-making: as a 'road-map' and 'as an information screen'. One remaining causal pathways of the three introduced in chapter 1 is that beliefs play a role as decision-making rules. President Kim Dae-jung's conviction about the effectiveness of the sunshine policy towards North Korea could be related to his strong desire to control over the South Korean policy-making system through the sunshine policy. In principle the sunshine policy could be contested. Its argument could be found contradictory by officials in the government, for instance. However, President Kim Dae-jung's strong beliefs imposed a certain understanding of the sunshine policy and prevented this opposition, from within the government, from developing. This was one way in which rules could be seen to influence the process of domestic political debate as well.

Particularly, under the South Korean presidential system, the President has enormous political power. Both the constitution and the top-down political culture of South Korea grants the President powers that allows him to be a key actor in foreign policy if he wants to be. Obviously not all presidents choose to play an active role in foreign policy; much depends on a president's interests and knowledge. However, when Kim Dae-jung took the oval office, he was determined to take charge of North Korea policy. President Kim's new staff working on North Korea policy were all people who shared the idea of a sunshine policy or were politically loyal to him. For example, he appointed Lim Dong-won as a Senior Secretary of Foreign Affairs and Security (SSFAS) to help him promote the sunshine policy. Even though Lim Dong-won was supposed to advise on the whole of foreign affairs to the President, he was chosen basically as the North Korea policy advisor, or more specifically, advisor on the 'sunshine policy'.

#### **5.3.i Structure of the National Security Council (NSC)**

The central line of Kim Dae-jung and Lim Dong-won about making North Korea policy is well represented in the structure of the NSC. In fact, South Korea's national security and

North Korea policy decision-making is supposed to centre on the National Security Council, which consists of the President, the Minister of Unification, the Minister of Foreign Affairs and Trade, the Minister of National Defence, the Director of National Intelligence Service, and the Senior Secretary of Foreign Affairs and Security (SSFAS). In the previous government, however, the NSC was not working as a decision-making organisation, especially when dealing with the North Korea issue, because of there were policy disputes and disharmony between ministries. One theory about this was that dovish members, such as minister of the Unification (MOU) and the minister of Foreign Affairs and Trade (MOFAT) were overridden by hawkish members, such as the Director of National Security Planning (NSP, currently NIS) and SSFAS. This was possible partly because some ministries are more powerful than others in terms of their ability to gather resources and information. But more importantly, President Kim Young-sam gave more policy leverage to hawkish members because he was quite sensitive to public sentiment over North Korea's military provocations (Kil Jeong-woo 1998).

However, the Kim Dae-jung government reshaped and strengthened the National Security Council (NSC) as the core decision-making system. This body produced solid policy coordination among ministries, because Kim Dae-jung appointed key cabinet members who shared his basic assumptions and objectives, with Lim Dong-won as the key man. The purpose of reshaping the NSC system was to centralise decision-making in the Blue House on North Korean issues, and to prevent decision-making discord through bureaucratic politics. The core of the system was a network of interagency meetings through the NSC, chaired by Lim Dong-won.

Lim Dong-won is generally known as the 'architect' or 'preacher' of the sunshine policy. Before he worked in the Kim Dae-jung government, he actively participated in inter-Korean vice-minister level talks as a key member of the South Korean delegation, during the Roh Tae-woo government. During this period, he participated more than 70 times in the various rounds of inter-Korean talks as a key negotiator and became well known as a "moderate" North Korean specialist. After the defeat of 1992 South Korean presidential



election, Kim Dae-jung hired him, and Lim Dong-won worked as a secretary general of the Kim Dae-jung Peace Foundation for Asia Pacific Region (KPF), which is Kim Dae-jung's think tank for North Korea policy. Also, he was the project manager of the completion of Kim Dae-jung's "Three-Stage" approach to Korean unification plan in the 1990s that encompasses most of the contents of the sunshine policy (Kim Dae-jung 1997a).

With the advent of the Kim Dae-jung government, Lim Dong-won worked as SSFAS from February 1998 to May 1999, as the Minister of MOU until December 1999, as the Director of NIS until March 2001, and then again as Minister of MOU, until he stepped down from the post when the National Assembly passed a no-confidence motion on the 4<sup>th</sup> of September 2001. However, President Kim appointed him again as a minister-level special advisor for the inter-Korean issue a week after. Thus, he is the only person who is still working in the minister level in several core ministries of North Korean policy-making. This means that President Kim Dae-jung and Lim are the only two persons who have served continually in the NSC. Moreover, it is generally known that the President privately consults with him in appointing cabinet members on North Korea policy, and that Seoul's North Korea policy is made almost totally by these two people. Hence, for example, it was reported that the US is listening only to these two people, rather than to other high officials to find out South Korea's intentions with regard to North Korean policy (Interview with a junior official at the MOFAT, London, December 2000).

Moreover, Lim Dong-won took personal charge of a number of policy initiatives that were handled for the President outside the NSC system by a small group of advisors, such as the secret consultations with the North regarding the inter-Korean summit, coordination with the US and Japan regarding North Korea policy, and the invitation of high-level North Korean officials to the South. He became a presidential negotiator on North Korean issues, many of which would normally have been the business of the MOFAT.

### **5.3.ii The behaviour of related ministries on North Korea policy**

Along with President Kim Dae-jung's sunshine policy, the behaviour of ministries has changed. The MOU has been regarded as the ministry of 'moderates' on North Korean issues, but lacked in organisational and operational power. Even though the Kim Young-sam government upgraded the minister of unification as vice-prime minister, this was just a symbolic gesture. In the previous government, the minister of unification was supposed to direct and coordinate relating ministries in the unification-security committee, but the MOU has been relatively weak in terms of political power. Because South Korea's North Korean policy focused on military aspects, such as the nuclear crisis and North Korea's other military provocations, it remained a symbolic agency without substantial inter-Korean interactions. The nuclear crisis and military provocation by the North gave power to NSP and MND to formulate North Korean policy.

In fact, the MOU's power much depends on the increase of inter-Korean cooperation and exchanges, because it possesses regulatory power over South Korea's trade and investment as well as socio-cultural relations with North Korea. Thus, the Kim Dae-jung government's intention to increase interactions with North Korea helped the MOU's status in North Korea policy decision-making, where it played an important role in promoting South Korea's comprehensive engagement with the North. This is well reflected in Lim Dong-won's appointment as minister of the organisation twice in the current government.

The other relatively moderate ministry of North Korean policy is MOFAT. The role of the MOFAT in North Korea policy is mainly in international coordination. This body is responsible for coordinating South Korean policy towards North Korea within the broader framework of US-South Korea and Japan-South Korea relations. In the Kim Dae-jung government, it advocates the sunshine policy abroad. However, officials in MOFAT point out that it does not necessarily shape basic policy toward North Korea, rather its role is to follow-up the North Korean policy decisions made by in the government (Interview with a junior official with MOFAT, London, December 2000). Thus, it has a limited role in the international area rather than in the making of North Korean policy.

The role of the other two departments, which are the most conservative towards North Korean policy, is also worth examining. The MND and the Armed Forces are supposed to be conservative toward North Korea, who is still the “main enemy” for them. However, these organisations are very loyal to the current government’s sunshine policy toward North Korea. One clear constant in the past, even in the post-cold war era, when South Korea was dealing with North Korean provocations, was the inconsistent application of reciprocity or counter-responses, characterised by immediate condemnation. However, when a North Korean submarine was discovered entangled in fishing nets off the east coast, in South Korean waters, together with other spying infiltrations by the North, president Kim Dae-jung maintained a “wait and see” attitude. confirming this attitude, the MND described the North’s infiltrations as “low-level provocations, not serious commando-type operations” (*Far Eastern Economic Review*, 31 December 1999: 14).

More serious change can be founded in the disagreement between South Korea and the U.S. on measuring North Korea’s military threat. Major General Park Seung-choon, intelligence chief at the Joint Chief of Staff (JCS) of South Korea, argued that there was basically no difference in the estimates concerning North Korean military threats between South Korea and the United States. However, he admitted to disagreement in terms of perceptions of the North Korean threats. On the one hand, the US General Thomas Schwartz, Commander of United States Forces in Korea, spoke before the US Senate’ Armed Services Committee on the 27<sup>th</sup> of March 2001 and said that “the North Korean military training exercises held immediately following the inter-Korean summit in 2000 were the most extensive ever recorded” (*Chosunilbo*, 29 March 2001). He argued that Kim Jeong-il regime’s military is bigger, better, and deadlier than it was at the time of his testimony the year before. South Korean military officials, on the other hand, took a different position. They argued that the North did engage in highly intensive military exercises near Yonpyong Island on the West Coast, but insisted that since the 2000 inter-Korean summit these training exercises have returned to the scale they used to be, and that military tensions have been reduced (*Chosunilbo*, 29 March 2001).

Moreover, the South Korean Army is engaging in mine-clearing operations aimed at re-building a portion of the Seoul-Sinuiju Railroad Line, and a highway from Panmunjom to the Southern boundary of the DMZ, and is currently doing ground-levelling work to re-link the inter-Korean railroad (*Chosunilbo*, 4 March 2001) One MND official said that “the Armed Forces are conservative in nature and this character is required to fulfil their given mission of defending the country against the enemy and it will take time for them to adopt to the new paradigm of North Korea policy... But at the same time, they are born to serve superiors [the president] and show a surprising degree of flexibility when faced with a changing situation” (quoted in *Korea Times*, 25 June 1998).

The other conservative institution involved in North Korea policy is the NIS (formerly known as the KICA and later the NSP). This body is responsible for gathering information and providing policy input for North Korea decision-making. However, as discussed before, this intelligence agency does more to change public perception through manipulating information and revealing North Korea’s spy operations in the South, and thus influences policy outcomes regarding North Korea. In terms of North Korea policy, it sees South Korea’s military up grading and its alliance with the U.S. as a priority in the face of an unreliable North Korea.

However, according to a leaked document from NIS, under the Kim Dae-jung government the NIS seems to be going soft on North Korea compared with past behaviour. While, the former NSP under the Kim Young-sam government saw North Korea’s policy towards the South as engaging with the US and isolating South Korea (*Tongmibongnam* policy), the NIS implies that the current North Korea’s policy towards the South is one of defensive positioning while securing economic support from the South. The important point is that the NIS sees that North Korea is in a defensive position for the first time, and also recognises that it has the intention to engage with the South for economic interests (*Shindonga*, August 1999).

Moreover, the changing behaviour of the NIS can also be illustrated by its secret negotiations with Pyongyang for the realisation of an inter-Korean summit. Lim Dong-won,

director of the NIS at that time, engineered pre-meetings and continues to manage the process of rapprochement with North Korean partners. The NIS is supposed to spy on the North and to prevent subversion in the South. However, it became an agency of communication with North Korea by establishing several avenues with the North. The *Chosunilbo* criticised Lim Dong-won that “the work of the director of the NIS is to protect the country from espionage, terror, and threats both foreign and domestic. This is supposed to be done, not greeting North Korea’ spymasters”(quoted in *Chosunilbo*, 31 January 2001).

## Conclusion

This analysis has demonstrated that Kim Dae-jung’s unification ideas were a crucial factor in the current South Korea government’s strong policy-making will toward active and consistent engagement with North Korea. While his long-evolving unification plan through peaceful and gradual engagement with North Korea was not given public hearing during the Cold War era, his ideas, however, became the foundation of the current Kim Dae-jung government’s ‘sunshine policy’.

Moreover, changes in the international environment and within North Korea in the 1990s gave opportunities to Kim Dae-jung to develop a more detailed perception of and policies towards North Korea in order to facilitate his three-stage unification plan. By the 1990s, he had already established most of the parts of the ‘sunshine’ policy that his government is now pursuing as its North Korea policy. Thereby, his firm belief in the ‘sunshine approach’ towards North Korea played a great role as causal belief, information screen, and decision-making rule in formulating and implementing North Korea policy, as pointed out in the ‘beliefs approach’.

As set out in chapter 1, this thesis examined a range of variables that might have influenced Seoul’s utilisation of business-track diplomacy under Kim Dae-jung government, in chapters 4 and 5. As a result, it was revealed that there are causal relations between beliefs held by top decision-makers and foreign policy outcomes in the South Korean foreign policy-making process. Put differently, the conventional international structure analysis, which

emphasises the US influence on South Korean foreign policy-making, can not explain the North Korea policy choice by the Kim Dae-jung government. Rather, this study demonstrates that beliefs (as casual beliefs, information screens and factors of institutionalisation) held by the policy-makers of South Korea, which is a small state compared with surrounding powerful states, can be an important policy input and can produce a certain policy choice beyond what the traditional international system perspective on South Korean foreign policy analysis could predict.

## **Chapter 6. Case study of Hyundai Group's North Korea business: Centred on the Mt. Kumgang project**

This research has so far demonstrated Kim Dae-jung government's strong policy-making will of comprehensive engagement with North Korea, the important role of President Kim Dae-jung's belief system towards the North Korean issue on Seoul's North Korea policy-making process, and South Korea's external and internal constraints for implementing active and consistent engagement measures towards North Korea. In addition to these aspects, this chapter will also show the importance of private sector's will and state's economic capability for utilising successful business-track diplomacy as discussed in chapter 1. In order to give an example that shows the present situation and the future implication of South Korea's overall utilisation of business-track diplomacy towards North Korea, this chapter investigates the South Korea based Hyundai Group's economic cooperation, centred on the Mt. Kumgang tourism project, with North Korea.

As indicated above, one aim of this chapter is to demonstrate that in addition to Kim Dae-jung government's strong policy-making will of business-track diplomacy towards North Korea, the South Korean business community and the vulnerability of the North Korean economy also played an important role in enhancing inter-Korean economic cooperation through Hyundai Group's businesses with North Korea. The other aim of this chapter is to show the various constraints to Kim Dae-jung government's economic engagement with North Korea. As pointed out in chapter 1, this study will show South Korea's limited economic capability, which is an important factor in the effectiveness of business-track diplomacy towards North Korea, through the case study of Hyundai Group's overall difficulties in doing businesses with North Korea.

The Hyundai Group was selected for the case study because it has been the most active private sector actor in North Korean business relations, and moreover, its Kumgang

tourism project has been considered a vivid example of the result of the Kim Dae-jung government's consistent sunshine policy. Through the case of the Hyundai Group's North Korean businesses, with special emphasis on the ongoing Mt. Kumgang project, this chapter will discuss the Kim Dae-jung government's private-led economic engagement with North Korea.

### **6.1 Mt. Kumgang project before the Kim Dae-jung government**

The Mt. Kumgang tourism has provided more than 400,000 South Koreans with the chance to step on North Korean soil, after it was launched at a ceremony on the "Kumgang" cruise ship on 18 November 1998. It can be considered a historical event in terms of inter-Korean exchanges and cooperations and an illustration of what the Kim Dae-jung government aimed for. The tourism project was first negotiated in the North in January 1989, when Chung Ju-young, Chairman of the Hyundai Group at that time, signed a memorandum of understanding with the North Korean counterparts. Thus, the Mt. Kumgang tourism project took almost ten years to come to fruition.

Over the years, the project was occasionally suspended due to international and domestic political impediments. In 1989, Chung Ju-young visited North Korea and negotiated several joint projects including one to develop a major tourist resort known as the Mt. Kumgang project. However, the Roh Tae-woo government withdrew its permission for the project and made it clear that North Korea's nuclear issue should be solved first, before enhancing the private sector economic cooperation and contacts with North Koreans (*Joongangilbo*, 10 March 1992). Also, the Kim Young-sam government's inconsistent economic engagement with the North prevented South Korean firms, especially the chaebols, from initiating investment in North Korea. This is evident in the fact that there were no approved inter-Korean projects by prominent South Korean chaebols during the Kim Young-sam government.<sup>64</sup>

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<sup>64</sup> See Table 3-2 in chapter 3.



As discussed in previous chapters, the South Korean governments led by Roh Tae-woo and Kim Young-sam believed that economic engagement with North Korea should depend on inter-Korean political and military dialogues. Hence, economic engagement was conditionally pursued when Pyongyang recognised the legitimacy of the South Korean government and did not bypass South Korea on the Korean Peninsula issues. Thus, the sensitivity of inter-Korean political issues had a great impact on inter-Korean economic relations. Furthermore, previous South Korean governments were concerned over the possible diversion of large-scale investments towards North Korea's military build-up.

In addition, the delay of the Mt. Kumgang project was also caused by the uncomfortable relationship between the Kim Young-sam government and the Hyundai Group. The tension began after Chung Ju-young, a founder of the Hyundai Group, decided to run for President as a candidate for the Unification People's Party (UPP), which was established on the 10<sup>th</sup> of January 1992, less than a year before the South Korean Presidential election on the 18<sup>th</sup> of December 1992. However, he was defeated and came third after the winner, Kim Young-sam, and Kim Dae-jung. After the election, Chung Ju-young was prosecuted for a violation of the presidential election law. The charge was that Hyundai Heavy Industry's (HHI) money (up to US\$10 million) was illegally used for his campaign activities. He was sentenced for three years on 2 November 1993, though he was allowed to go on probation after that sentence (*Chosunilbo*, 10 February 1993; 2 November 1993).

After that, Chung Ju-young, who had resigned as the chairman of the Hyundai Group in 1991 to contest the presidential election, could not return to the management of the company due to the Kim Young-sam government's political oppression. After the advent of the Kim Dae-jung government in 1998, he was able to return officially as the honorary chairman of the Group (*Chosunilbo*, 24 February 1998).

One major political oppression against the Hyundai Group was the freezing of the capital supply of the Hyundai Group. For instance, the Hyundai Group borrowed from the Industrial Bank of Korea 140 billion won (up to US\$140 million) in 1990, and 250 billion won (up to US\$250 million) in 1991. However, in 1992, when Chung Ju-young ran for president

against Kim Young-sam, the Hyundai Group was not able to get a loan from the bank. Moreover, the Hyundai Group's self-funding efforts, such as listing Hyundai firms on the Korea Stock Exchange or the issue of overseas bonds were also prevented by the Kim Young-sam government's intervention. As a result of the so-called government's 'intentional financial shackle' on the Hyundai Group, it had to give-up several business projects, including the Mt. Kumgang project. For the sake of his company, Chung Ju-young had to make public his retirement from the Hyundai Group management on the 3<sup>rd</sup> of May 1994 (Huh 1999: 128-131).

This political oppression came to light when Chung Ju-young launched some heavy criticisms against former president Kim Young-sam, after he stepped down from the presidential office in 1998. In his autobiography entitled 'The Story Of My Life, Born In This Country,' he argued that because of his decision to run for South Korean president against the ruling party candidate, Kim Young-sam, in 1992, the Hyundai Group was discriminated against by the Kim Young-sam government and suffered from several economic disadvantages such as tax investigations, the prevention of bank loans, and unfair treatment in competitive bids (Chung Ju-young 1998).

## **6.2 Actors' will of launching the Mt. Kumgang project**

As pointed out in chapter 1, actors' policy-making will both in the public and the private sectors is an important factor in implementing business-track diplomacy. The Mt. Kumgang tourism case proved that the involved actors' (the Hyundai Group, the North Korean government, and the Kim Dae-jung government) inter-Korean business-making will was a crucial factor for the realisation of the project. All factors - Hyundai Group founder Chung Ju-young's tenacity for North Korean businesses, especially the development of Mt. Kumgang areas, North Korea's willingness of economic engagement with South Korean private sectors, and the Kim Dae-jung government's adoption of the principle of the separation of economics from politics in order to enhance private-led economic engagement towards North Korea - contributed to the success of this project.

### **6.2.i Hyundai Group and Chairman Chung Ju-young**

Firstly, Mt. Kumgang tourism was possible because of Chung Ju-young's will for economic engagement with North Korea. In his memoirs 'The Story Of My Life, Born In This Country,' he pointed out his strong determination to accomplish the Mt. Kumgang development, saying that the "Mt. Kumgang development is our national project and contributes to promoting peace for our nation, moreover, it is my final destiny" (Chung Ju-young 1998: 98). Like other South Korean businessmen whose home towns were in the North before the Korean War, and who were keen on inter-Korean business, Chung Ju-young, born in Tongchon near Mt. Kumgang, dedicated his remaining life to developing business with North Korea, and to helping North Korean people.

After seeing the possibility of a joint venture between the Hyundai Group and North Korea on Mt. Kumgang tourism development of the 16<sup>th</sup> of May 1990, Chung Ju-young continued to show interest and never gave up on the project. Despite several obstacles, as discussed earlier, he believed that the deal reached with North Korean authorities was still valid and showed the will to drive it forward. For instance, Hyundai Research Institute (HIRI), the Hyundai Group's affiliated institute, argued that South Korean chaebols needed aggressive investments in North Korea. In this view, South Korean companies should provide financial contributions to the North rather than seek short-term profits, in order to earn recognition from the North Korean government and, thus, momentum for long-term inter-Korean economic cooperation, although this required a huge amount of money (Cho Dong-ho 1996).

After the Kim Dae-jung government's promise of strong support for the Mt. Kumgang tourism project, Chung Ju-young reportedly said that he was willing to spend 10 percent of his own money on the North Korean investment, and directed his sons to open a "North Korean channel" to re-negotiate the Mt. Kumgang project (Oh Min-soo 1998). On the 14<sup>th</sup> of February 1998, Chung Mong-hun, the third son of Chung Ju-young, contacted North Korean officials in Beijing. After several pre-stage talks between Hyundai Group officials and North Korean counterparts, Chung Ju-young proposed a resumption of talks regarding the Mt.

Kumgang tourism project and other businesses, announcing his desire to donate 1,001 head of cattle to the North.

With first 500 heads of cattle, he visited Pyongyang to discuss inter-Korean economic cooperation with the Asia Pacific Committee (APC) in the North, which is in charge of inter-Korean economic cooperation in North Korea. Returning from the North on the 23<sup>rd</sup> of June 1998, he announced that the Hyundai Group would launch its first cruise trip to Mt. Kumgang on the 25<sup>th</sup> of September 1998. Thus, the Hyundai Group prepared to set sail, by charting two vessels from foreign countries, and started to refurbish Changjun, the nearest port to the mountain in the North. However North Korea's series of military provocations in the summer of 1998, which will be discussed later, hindered the deal.

However, both the Hyundai Group and the APC in the North intended to make a deal on Mt. Kumgang tourism. Chung Ju-young dispatched top executives, including his son Chung Mong-hun, to Beijing for contacts with North Korean authorities. However, negotiations were not smooth. Thus, the Hyundai Group's promised schedule for a first and second take-off of the cruise, in September and October 1998, was postponed. It was reported that the continuing delay of the tour was caused by a disagreement on tour price between the Hyundai Group and North Korea, and the North Korean military authorities' discontent over opening up Mt. Kumgang and the Changjun port for the tour cruise to South Koreans (Interview with a junior official of the MOU, Seoul, August 1999). However, Chung Ju-young did not give up on the project. He was able to visit North Korea and make his gift of the remaining 501 head of cattle and 20 sedans made by Hyundai Motors. He finally met the North Korean leader, Kim Jeong-il, on the 30<sup>th</sup> of October, extended his stay in the North, and reconfirmed the project with Kim Jeong-il.

In fact, the Hyundai' Group's eagerness to launch the Mt. Kumgang project was reflected in its generous financial contributions to the North. The basic nature of the Mt. Kumgang deal indicates that the Hyundai Group will hold the exclusive rights to develop the tourist site until the year 2030, in return for the payment of a total US\$942 million through to March 2005, on a monthly basis. The schedule for the total payment of US\$942 million to the

North is to pay a total of US\$150 million by June 1999, which is US\$25 million a month for six months, US\$72 million over the next nine months, which is US\$8 million a month until March of 2000, and US\$720 million over the five years through March 2005, which is US\$12 million a month (*Korea Times*, 5 January 1999).

In addition to this, the Hyundai Group offered 1001 head of cattle, 50,000 tons of corn and 20 Hyundai sedan cars, whose value amounts to 11 billion won (up to US\$9 million) before the Mt. Kumgang tour project deal was reached with North Korea. The total sum of money provided to North Korea was at least US\$8.5 million in 1998 alone, in addition to 11,000 tons of corn donated through the Korean National Red Cross between 1997 and 1998. Moreover, the Hyundai Group promised to employ 500 North Korean workers at its oil refinery factories in Turkmenistan and the Libyan oil pipeline construction site. Privately, Chung Ju-young presented lots of gifts, such as a golden crane, a jewel-adorned picture, to Kim Jeong-il and other related North Korean officials, during his trips to North Korea in 1998 (*Korea Times*, 4 and 5 November 1998). Without doubt, the conglomerate's various contributions to North Korea were regarded as part of its efforts to create the proper atmosphere for the successful implementation of Mt. Kumgang tourism with the North Korean government.

However, industry insiders were hardly optimistic about business prospects unless foreign investment and tourists were attracted to the tour as soon as possible. Also, the business community was not convinced that Mt. Kumgang tourism was a business-oriented project and was concerned that the project might pose a burden on other companies seeking to start new businesses with North Korea because of the Hyundai Group's massive financial lobbies and promises to Pyongyang (*Chosunilbo*, 11 November 1998).<sup>65</sup> Negative views on

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<sup>65</sup> Most tour operators predicted that considering the tour's high price and the low demand in winter, the Hyundai Group will have to find new customers, such as foreigners. Because the competitiveness of Mt. Kumgang tourism was very low, considering that Hyundai charged around US\$1,000 for the five-day cruise, Hyundai would have to focus on a specific group of local tourists, mostly elderly citizens who were separated from their families in the North. However, this would be a short-term solution (*Korea Times*, 18 November 1998).

the profitability of the Mt. Kumgang project also prevailed amongst Hyundai Group officials before the project started.

But, Chung Ju-young's strong will towards the Mt. Kumgang project could not be disobeyed. His status in the Hyundai Group was such that he was not called 'chairman' but 'king chairman' by Hyundai Group officials (*Shindonga*, March 1999). The Mt. Kumgang project was hardly understandable from a business point of view but was understandable in terms of the North Korea born and old businessman's strong commitment towards inter-Korean economic cooperation.

#### **6.2.ii North Korea's business will**

Secondly, Mt. Kumgang tourism was possible because the North Korean government had a will to accept South Korean business exchanges, at least from private sectors. As pointed out in chapter 1, a target state's economic difficulties and so its vulnerability can increase the economic capability of the actors to utilise business-track diplomacy. As demonstrated in chapter 2, North Korea's severe economic difficulties and isolation in the 1990s provided the involved states, including South Korea with an opportunity to utilise business-track diplomacy towards North Korea.

In fact, it was true that the North tried to attract foreign investment from the 1990s. The tourism industry was already targeted for foreign joint-venture businesses as early as the mid-1980s (*Joongangilbo*, 5 July 1991). North Korea even designated 1993 as the North Korean tourism year to attract foreigners. However, efforts to attract foreign investment to the tourism industry failed. In fact, Pyongyang asked Japanese conglomerates to develop the Mt. Kumgang area for a tour and resort site, and actually received a basic agreement from some of them. But, these were not realised primarily because of their lack of confidence in the North Korean government, and the unabated political tension on the Korean Peninsula. To address this situation, the North began to pursue South Korean chaebols, which showed more interest than other foreign corporations in the Mt. Kumgang region.

North Korea made contacts with several South Korean chaebols including the Hyundai Group. For instance, the Kumgangsan International Group, an affiliated company of the Unification Church, was actively trying to start ferry tourism in the early 1990s, and the Daewoo Group had proposed a huge resort hotel with a capacity of 900 rooms in the Mt. Kumgang area (*Joongangilbo*, 21 October 1994). However, there were no other companies like the Hyundai Group, who showed strong will and had a comprehensive Mt. Kumgang development plan that required huge investment. It was reported that the North Korean authorities began to understand as a result of negotiations for the Mt. Kumgang tourism project that attracting direct investment from the US and Japanese companies was difficult, while South Korean capital was more accessible, and also necessary for attracting other foreign capital (*Joongangilbo*, 29 November 1994; *Chosunilbo*, 2 January 1998).

North Korea's main reasons for pursuing the development of the tourism industry was to acquire hard currency in a short period of time without causing severe damage to its system. For instance, North Korea's total sum of exports in 1999 was US\$637 million, and its net profit might not exceed Hyundai Group's promised payment of up to an average US\$150 million per year for Mt. Kumgang tourism. Also, North Korea does not need to invest its own money to develop the Mt. Kumgang area (KOTRA 2001a). An official from the Blue House pointed out that Hyundai's total payment of US\$942 million in return for its exclusive right to develop the Mt. Kumgang area through to 2030 could make up for a food shortage in North Korea for 4 or 5 years. It is therefore unthinkable that North Korea would oppose this amazing deal (Interview with a national security advisor in the Blue House, Seoul, August 1999). Thus, the tourist business was too profitable to be denied by North Korea.

In addition to hard currency, the other reason was to reduce political risk due to opening to the outside world. For instance, North Korea introduced limited reform and openness policies to attract foreign investment in the Rajin-sonbong free trade area in 1991. However, foreign investment brought concerns over contamination, and the spread of capitalistic ideology through direct contacts between foreign employers and North Korean employees and citizens. In response to this concern, the North Korean authority omitted the

word 'free' from the title 'Rajin-sonbong free trade zone' in 1999, and it deepened the central government's control over the personnel management of foreign firms, the free trade market at Wonjongni, and commercial advertisements.

Compared with these risks, tourism does not require many North Korean employees to manage business. For example, North Korea committed a minimal number of North Koreans for the Mt. Kumgang tourism business. Currently, people who have direct contact with South Korean tourists are officials of the Immigration Bureau and environmental watchers. Other related personnel, such as salesmen, nurses, cooks, bus drivers and those on subsidiary facilities, are mostly Korean Chinese living in north-eastern China (*Chosunjok*). Moreover, citizens around the Mt. Kumgang region as well as North Korean people of other regions have only limited access to the tourist sites (Suh Bong-ko 2001).

This does not mean that launching this project was an easy decision for North Korea. Especially, to open the Mt. Kumgang area, a protected military site, and the military port Changjun, to South Koreans was no easy political decision for Pyongyang, and should be regarded as a great change, despite the need for hard currency. For instance, Changjun, a port city nestling at the foot of Mt. Kumgang, has long been North Korea's naval base accommodating fleets of destroyers and submarines, often used for the infiltration of South Korea. The naval base would be relocated eventually to another area because it can no longer maintain the secrecy required of a military base. Military observers point out that the military importance of the Changjun port to the North is like that of the Chinhae port to the South, and to open the Chinhae port to North Koreans for tourism would be impossible considering its strategic importance (*Korea Times*, 24 November 1998).

Pyongyang's difficulty is evident in the alleged confrontations between military authorities and the APC over the Mt. Kumgang project. For instance, while Chung Ju-young reached an agreement with APC on launching Mt. Kumgang tourism on the 23<sup>rd</sup> of June 1998, there were two unexpected military infiltrations by North Korea. A North Korean submarine was discovered on the South Korean east coast on the 22<sup>nd</sup> of June, and an armed North Korean soldier was found dead on the South Korean shore in July 1998. These



contradictory behaviours, almost simultaneously by the North, might reflect North Korean military authorities' discontent about Mt. Kumgang tourism, and their efforts to hinder the project.

After two military infiltrations by North Korea, the mood about the Mt. Kumgang project calmed down. However, it was the APC, the North Korean counterpart of the Hyundai Group for the Mt. Kumgang project, which signalled to the Hyundai Group to resume talks over the project. This signal led to a series of talks between officials from the Hyundai Group and APC. However, negotiations between the two were not smooth. Thus, the expected schedule for two take-offs of the Mt. Kumgang trip cruise was postponed. Once again, it was reported that the most important reason for the delay was that Kim Yong-sun, the head of APC, was having a difficult time in persuading North Korean military authorities. They were reportedly displeased with having no leading role or control over the Mt. Kumgang project, and over the opening of Changjun port, which was an important naval base (*Chosunilbo*, 23 September 1998).

### **6.2.iii Kim Dae-jung government**

Third, as discussed in previous chapters, President Kim Dae-jung's strong belief in the effectiveness of the sunshine policy and thus Kim Dae-jung government's flexible and consistent economic engagement posture towards North Korea greatly helped the realisation of the Mt. Kumgang project between the Hyundai Group and North Korea. When Kim Dae-jung took the presidential office, the Hyundai Group resumed its North Korean businesses with small-scale joint projects, such as the import of freight trains made by North Korea in early 1998. In fact, all the Hyundai Group's businesses with the North had been suspended under the Kim Young-sam government.

Regarding the Mt. Kumgang project, there was full support of the government under its sunshine policy. Before Kim Dae-jung took oval office on 28 February 1998, the Undertaking Committee of the Presidential Office of the incoming Kim Dae-jung government had already selected the Mt. Kumgang project as one of Kim Dae-jung government's one

hundred tasks for the next five years on the 12<sup>th</sup> of February 1998 (*Chosunilbo*, 12 February 1999). The Kim Dae-jung government permitted the chairmen of chaebols to visit North Korea without any political preconditions on 1 April 1998. In fact, this had been banned during the Roh Tae-woo and Kim Young-sam governments because large-scale investment by South Korean chaebols was seen to help North Korea's military build-up.<sup>66</sup> Chung Ju-young submitted an application to visit North Korea to the Ministry of Unification the week after.

Following a series of dialogues between the Hyundai Group and North Korea on the Mt. Kumgang tourism project, Hyundai announced that it had reached a deal with North Korea on the 23<sup>rd</sup> of June 1998, without asking for South Korean government's permission, then still necessary before any public announcement. The Hyundai Group instead submitted a project application on the 1<sup>st</sup> of July 1998 to the Ministry of Unification (MOU). However, there were no legal problems or confrontation between the government and the Hyundai Group. One journalist pointed out that the Hyundai Group's violation of inter-Korean procedural law would have been a serious political problem during the previous South Korean governments, because the Hyundai Group did not observe the principle of 'government first and private sector later' on North Korean affairs to which previous South Korean governments had kept (Interview with a reporter of *Shindonga* by E-mail, 11 December 1998). Moreover, in the final stage of the tour price negotiation between the Hyundai Group and North Korea, the MOU exempted the group from a series of taxes for Mt. Kumgang tourism through revising the Inter-Korean Exchanges and Cooperation Law. It is reported that the Hyundai Group benefited by up to 20% of the total tour cost from that decision (*Chosunilbo*, 23 September 1998).

In fact, compared with the Hyundai Group's difficult relationship with the Kim Young-sam government, Hyundai Group's Mt. Kumgang project enjoyed cosy relations with the Kim Dae-jung government. There is no doubt that the Kim Dae-jung government and the Hyundai Group shared common interests to realise the Mt. Kumgang project. As far as the President Kim Dae-jung government was concerned, since February 1998 when he took

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<sup>66</sup> See Table 3-1 in chapter 3.

office, he put forward his sunshine policy regarding inter-Korean relations, as well as successive calls for government-level dialogue, but a breakthrough failed to materialise while North Korean provocations continued. In the face of no substantial results from the pledged sunshine policy in the first year of his presidency, Chung Ju-young's activities were a very effective way to press ahead with the sunshine policy. In fact, an official of the MOU pointed out that "the Mt. Kumgang program is a very important factor in terms of pursuing the sunshine policy. It is the only realistic means to this end and is expected to have a far-reaching effect from a long-term perspective (Interview with a junior official of MOU, Seoul, August 1999).

Firstly, the Kim Dae-jung government's support of the Mt. Kumgang project can be seen as a calm response to Pyongyang's continuing military provocations. When two submarine incidents occurred right after reaching the Mt. Kumgang project deal between the Hyundai Group and North Korea on 23<sup>rd</sup> of June 1998, Hyundai's Mt. Kumgang projects narrowly averted cancellation due to a wave of protest from the conservative camp in the South. However, Hyundai's projects have survived all challenges and suffered only from partial delays, because the Kim Dae-jung government remained steadfast in their engagement policy toward North Korea. For instance, against the backdrop of the contradictory incidents of Chung Ju-young's first visit to North Korea to discuss the Mt. Kumgang tourism project in 17-22 June 1998, and the discovery of a North Korean mini-submarine on 22 June 1998, Seoul announced that its principle of the separation of economics from politics would continue. The Blue House spokesman Park Ji-won even argued that the "Kim Young-sam government's handling of North Korea's military provocation and especially the submarine incident in 1996 was rough and Seoul needed to take a prudent attitude and not provoke Pyongyang." Moreover, the Ministry of National Defence (MND) postponed its usual warning issues to the North that such incidents inevitably bring about (quoted in *Chosunilbo*, 23 June 1998).

Moreover, within 20 days of the submarine incident, North Korea's armed infiltrators penetrated into the East coast of South Korean territory. This series of incidents shocked the

South Korean people. This time, the South Korean government pushed North Korea harder to make an apology than in the earlier incident. However, Seoul's engagement policy did not change. Lim Dong-won, in an interview with the *Chosunilbo*, said that "North Korea's infiltration was a routine operation, and these incidents were evidence that the hard-liners of North Korea wanted to interrupt inter-Korean cooperation. That is why more sunshine is needed to encourage moderate forces in the North" (quoted in *Chosunilbo*, 13 July 1998).

Even with growing criticism from the conservative media for the continuing soft stance towards North Korea's provocations, and an ongoing 'suspension campaign of Mt. Kumgang tourism' by conservative congressmen from both ruling and opposition parties, the South Korean government continuously leaned towards economic engagement with North Korea. The South Korean government reaffirmed its support for the Mt. Kumgang project based on the principle of separation of economics from politics. The MOU pushed the Mt. Kumgang project by announcing that the process of a South Korean visiting Mt. Kumgang would be simplified through a proxy tour agency, and by allowing a Mt. Kumgang development team from the Hyundai Group to visit North Korea frequently, without the government's express permission (*Chosunilbo*, 9 July 1998). President Kim Dae-jung argued that he would not link the demand for an apology from North Korea for its infiltration, to the Mt. Kumgang project. The issue of military security and inter-Korean exchanges go together because inter-Korean economic cooperation would help South Korean security in the long-run (*Korea Herald*, 14 August 1998). In fact, the response from the Kim Dae-jung government was quite different to that of former president Kim Young-sam in 1996, when the first such submarine incident occurred. President Kim Young-sam had indicated that an all out war could break out, and suspended all inter-Korean businesses until North Korea apologised for the incident.

Secondly, the Kim Dae-jung government stood up against growing domestic concerns over the possible diversion of North Korean revenue from the Hyundai project to military purposes. According to the MND, North Korea imported military arms valued at US\$106 million from Russia and six other countries during 1995-98 (Park Kun-young 1999b: 101).

This amount of money could be covered by the Hyundai Group's payment of US\$150 million in one year alone to North Korea for its exclusive rights over the Mt. Kumgang development for 30 years. In fact, the Hyundai Group is supposed to pay a total amount of US\$942 million. However, Kang In-duk, the Minister of Unification at that time, stepped back and said that "it is up to North Korea what it does with the money because it is a business deal between Hyundai Group and North Korea, and it is not a matter we [the government] should take up" (quoted in *Korea Times*, 2 November 1998). This remark clearly reflected Seoul's intention to disregard these concerns. Beyond the Minister's remark over legal matters relating to North Korea's possible diversion of money into a military build-up, there was the Kim Dae-jung government's real perception of such concerns.

In Seoul's new understanding of North Korea, it can be argued that North Korea's acquisition of hard currency through the Mt. Kumgang projects did not increase their military threat towards South Korea, even if the money was diverted into military build up. First, South Korea's military capability still far exceeds that of North Korea. According to SIPRI, for example, South Korea imported arms worth US\$5.2 billion, and ranked as fifth in this category in the world from 1994 to 1998 (SIPRI 1999). South Korea's volume of imported arms was 48 times higher than North Korea's US\$106 million. Second, North Korea's efforts towards military build-up are intended in self-defence rather than the so-called "liberation of the South by force". Considering the changes in the international environment in the 1990s, in which North Korea lost the military support of Russia and China while fearing continuing potential military threats from the U.S., North Korea's military build-up is understandable. Third, South Korea's excessive concern regarding a diversion of money from inter-Korean economic cooperation for military purposes would jeopardise the implementation of an active economic engagement policy towards North Korea (Park Kun-young 1999b: 99-102).

It seems that with new beliefs on engagement and new perceptions of the North, the Kim Dae-jung government's priority in North Korean policy is to help North Korea's constructive transformation towards a market economy. Put differently, the military power of North Korea already holds Seoul hostage with its forward-deployed artillery. Thus, South

Koreans should engage North Korea in an attempt to reduce tensions and to support the North's self-reform, because the marginal increase in North Korea's threat capability that might be achieved through economic aid and cooperation is relatively small.

Thirdly, government support for Mt. Kumgang tourism might also be detected in the suspicions and allegations over the Hyundai Group's benefits in domestic business. Compared with the Hyundai's disadvantage during the Kim Young-sam government, the public sees Hyundai gaining political favours from the Kim Dae-jung government. This is evident in the fact that the Hyundai Group has loomed large in the South Korean economy, leaving competing chaebols far behind with a series of take-overs of business divisions under the so-called "big deal" reform program initiated by the government, which involves swaps of major divisions among the nation's top five chaebols. For example, the merger of the semiconductor divisions between Hyundai Electronics Industries and LG Semicon, valued at US\$8 billion in favour of Hyundai and Hyundai Motor's merger of Kia and Asia Motors valued at US\$6 billion, have consolidated the Hyundai Group's external status as the No. 1 chaebol of South Korea. Thus, the Hyundai Group is under suspicion of government-business collusion in return for its active business engagement with North Korea (*Korea Times*, 21 April 1999; 5 August 1999).

### **6.3 Impact of Mt. Kumgang tourism on engagement with North Korea**

#### **6.3.i Enlargement of inter-Korean cooperation**

##### **6.3.i.a Private sector**

One of the impacts of the Mt. Kumgang project on inter-Korean relations was to increase inter-Korean cooperations and exchanges. After launching Mt. Kumgang tourism on the 18<sup>th</sup> of November 1998, the Hyundai Group intended to intensify its tourism by establishing the Hyundai Asan Corporation for North Korean projects on the 5<sup>th</sup> of February 1999. It increased the number of cruise vessels from one (Kumgang) to four (Kumgang, Bongrae, Poongak and Sulbong), and the number of tours in Mt. Kumgang area increased from one to four by the end of 1999. Also, to diversify events for tourists, it build the Onjunggak Pavilion for

purchasing North Korean goods and eating their foods, and the Mt. Kumgang Cultural Centre for enjoying North Korean cultural activities. Also, it opened huge public baths at Mt. Kumgang to attract tourists in the winter season (Hyundai Asan 2000b).

Hyundai Asan plans to develop the Mt. Kumgang area into eight tourism zones - Samilpo lake, Haegumgang and its neighbouring coastal area, Onjong-ni area, the Songbung-ni area, the Changjun Port area, Inner Kumgang, the Tongchon area and Shijungho lake. It will build roads linking the eight areas, hotels, a beach area, a spa, a golf course and a ski range. In the first stage, until 2001, the cruises would last for three, five or ten days for a tour of the Mt. Kumgang area. In addition, related facilities have been built including a lounge building, performance hall, a spa, and small shops in the entry village to Mt. Kumgang. In the second stage, going through to 2005, Hyundai will construct a number of tourism-related facilities, including hotels, casinos, ski resorts, golf courses and a spa. During the remaining 25 years until 2030, it will actively pursue the building of other facilities, including conventional halls, cultural centres, and human resources training institutes (Hyundai Asan 2000a). According to Hyundai Asan's plan, it will invest a total of US\$400 million by 2005 to build hotels, golf courses, ski slopes and so on. It plans also to construct a "Tongchun" Light Industry Complex for the production of goods specific to the region. In addition, a project to assist the North's farming is already under way in the Mt. Kumgang region (*Korea Times*, 25 October 1998).

As Mt. Kumgang tourism progressed, the scale of inter-Korean cooperation was enlarged. As seen in Table 6-1, a total of 5 inter-Korean projects in addition but related to Mt. Kumgang tourism, were approved by South and North Korean governments. Also, the beginning of Mt. Kumgang tourism provided the momentum for numerous other inter-Korean socio-cultural exchanges. For instance, the two Koreas held two basketball matches, one in Pyongyang and one in Seoul in 1999, and the Hyundai group invited the North Korean acrobatic team to perform in Seoul in June 2000. Moreover, in order to expand social and cultural exchanges, the Hyundai Group and North Korea jointly constructed the Pyongyang

Hyundai Asan Gymnasium which will accommodate 12,000 people. Its ground-breaking ceremony was held in September 1999 (Hyundai Asan 2000c).

**Table 6-1. Approved inter-Korean projects related to the Mt. Kumgang project until 2000 (both in economic and socio-cultural fields)**

Company	Business Specifics	Amount (US\$ million)	Date Approval	of
Hyundai Marine/Hyundai and Asan	Merchant Engineering Construction/Hyundai Engage in the Mt. Kumgang tour and development	100.33 (not including payment of 942)	06/08/1998	
Korea Land	Development of real estate and run a department store	0.6	28/08/1998	
Hyundai Asan	Construction of indoor gymnasium in Pyongyang	34.2	20/09/1999	
Hyundai Electronics/Korea Telecom/Onsei Telecom	Joint communication business for Mt. Kumgang tour	0.13	11/11/1998	
Uinbang Communication	Mt. Kumgang international car rally for unification	1	11/11/1999	
Korean Culture Foundation	Mt. Kumgang Art Institute's Performance in the South	0.1	29/11/2000	

Source: data based on MOU (2000b)

Meanwhile, the most important effect of Mt. Kumgang tourism on inter-Korean economic cooperation was that North Korea promised the Hyundai Group that it would create a mammoth industrial complex in the North Korean city of Kaesung, a West Coast city just 70 km north of Seoul and 160 km south of Pyongyang. This project was broadly agreed in late 1998 between Hyundai and North Korea's National Economic Cooperation Committee. Founder Chung-ju young's frequent visits to North Korea and accumulated confidence over business between Hyundai and North Korea accelerated the completion of this industrial complex deal.

However, tangible deal was not reached for two years. The establishment of an industrial complex was delayed by a dispute over the proposed location. Kim Jeong-il



reportedly expressed a preference for Shinuiju or Haeju over the Kaesung district, despite the latter's greater attractiveness, as it is located near North Korea's border and Seoul, allowing the possibility of a common inter-Korean industrial belt, as well as easy access to South Korea's infrastructure. This was probably caused by North Korea's concern with the possible side-effects of its opening, perhaps undermining its regime, and thus preferred a remote and more distant place from South Korea for an industrial complex, such as the Rajin and Sonbong economic zones. However, after the inter-Korean Summit in June 2000, North Korea started to change its stance. Finally, Hyundai Asan and North Korea reached an official agreement that Hyundai Asan could hold exclusive rights over the Kaesung Industrial Complex, and Kaesung was designated as an industrial economic zone on 22 August 2000.

Although the Mt. Kumgang tourism project understandably attracted the most attention, the provision for the Hyundai Group's development of the Kaesung industrial complex may have more economic significance in the long-run, by encouraging investment by small and medium size South Korean firms. This project will be a test of whether inter-Korean economic cooperation can move beyond the present stage of indirect trade and manufacturing and tourism, to investment cooperation in manufacturing. Furthermore, it is hoped that Kaesung will become a free and open industrial area, that creates the conditions for free and competitive investment, and thereby attracts foreign investments and companies. Put differently, it will be the North's experimental way of introducing a socialist market economy to rebuild its economy, while maintaining its regime (Centre for Reunification Economics 2000: 36-7).

Hyundai Asan announced the blueprint of the Kaesung Industrial Complex in February 2001. It was aimed to build the area into a free economic zone, spanning some 27 million square meters by the 2008. The development of the Kaesung industrial complex is expected to take more than eight years. In the first stage, companies are expected to focus on export goods such as textiles, clothing and footwear. Labour-intensive industries which do not require heavy facilities or imported raw materials hope to enter the area at this stage. In the second and third stages, heavy industries are expected to engage in this area. If implemented,

it would be the biggest industrial area in North Korea, and would also be one of the major industrial areas of East Asia. Industrial sources pointed out that it will employ some 160,000 people, and circulate some US\$42 billion annually (Hong Soon-jik 2001: 15-6).

**Table 6-2. Hyundai Group's plan of development of Kaesung industrial complex**

Stage	Industrial Area				Residential Area	
	Area (Km)	No. of Firms	Employment (thousand persons)	Yearly Export (US\$ billion)	Area (Km)	Household (thousand persons)
First (2001)	3.3	150	20	2	20.0	50
Second (2002-4)	10.0	450	60	6	6.7	43
Third (2005-8)	13.3	600	80	12	13.3	57
Total	26.6	1,200	160	20	40.0	150

Source: data based on Hyundai Asan Corporation, and quoted from Hong Soon-jik (2001: 16).

### 6.3.i.b Public sector

Enhancing inter-Korean cooperation also increases the role of the South Korean public sector. First, the government has to provide a comfortable inter-Korean environment for facilitating inter-Korean cooperations and exchanges. In regard to the ongoing Mt. Kumgang tourism, the government's active role was evident in the discovery of a North Korean spy boat, which was sunk by exchanges of gunfire between the two Koreas on 17 December 1998, a month after launching the first Mt. Kumgang tour. At that time, South Korean policy-makers decided that the Mt. Kumgang tourism should proceed despite the military tension (*Korea Times*, 18 December 1998). This stance was continued throughout the Mt. Kumgang project whenever there were political and military tensions on the Korean Peninsula, such as the West Coast naval clash between the two Koreas in June 1999, which will be discussed later.

Second, the public sector became an important actor in inter-Korean economic cooperation. For instance, the Kim Dae-jung government became actively involved in boosting Mt. Kumgang tourism. The Korean National Tourism Organisation (KNTO), a

public corporation of the South, was set its resources on promoting the tour program overseas, by running advertisements in foreign media and distributing promotional publications through its overseas branches. It developed a package program of a “national security tour” of Mt. Kumgang, plus ski tours and summer seashore reports, which were available in the Kangwon province in the South and studied other possible destinations for the new tourist project in the North. Also, foreign journalists and other influential figures would be invited to the tour, believing that the Mt. Kumgang tour of the North, one of the few remaining communist countries, has the potential to be internationally competitive (*Korea Times*, 18 November 1998).

Also, the Ministry of Education of the South provided selected teachers with a free excursion, and half price for all teachers, in kindergarten, elementary, middle and high school, from 1999. Also, it has plans to build a long-term program with the aim of enabling all 360,000 teachers of the South to visit Mt. Kumgang (*Korea Times*, 13 June 1999). Moreover, the Hyundai Group has benefited from the alleged restraint on tax investigation into corporations which are involved in North Korean business. The Commissioner of the Office of National Taxation admitted as much when opposition party (GNP) members visited the Office (*Chosunilbo*, 16 July 2001).

The enlargement of inter-Korean cooperation also brought an increase in the direct involvement of the South Korean government in North Korean projects, which Pyongyang had always opposed as part of the strategy of ‘isolating the South Korean government’. Given the necessity of financial support for large-scale inter-Korean projects, Pyongyang seems to accept the involvement of the South Korean public sector. Moreover, the South Korean business community continuously demanded that the South Korean government be actively involved in inter-Korean economic issues, such as the signing of agreements on double-taxation prevention and investment-guarantees as well as providing public financial support for telecommunications, electric power, logistics and other key pieces of infrastructure linking the two Koreas (*Korea Herald*, 10 March 2000).

For example, the Kaesung industrial project will need an enormous amount of money in the long-run. Industrial watchers pointed out that the Hyundai Group might need US\$1 billion for the Kaesung economic free zone for the construction facilities alone; the project also requires investments, especially given North Korea's weak infrastructure, such as electricity and transportation facilities. Thus, it was reported that even the minimal stages of the Kaesung economic zone require US\$5 billion (Yang Moon-soo 2000). For instance, Lee Yong-bum, an official of Korea Land Corporation (KOLAND), argued that it might need more than US\$3 billion just to reconnect the South-North railroad, which is suitable for Kaesung industrial complex transportation (Lee Yong-bum 1999: 68).

With this enormous financial burden, the Hyundai Group asked for the South Korean government's participation on this project, and North Korea permitted Seoul's involvement. Consequently, the state-run KOLAND of South Korea joined the project, taking charge of financing and planning the future development of the Kaesung industrial complex. While Hyundai and KOLAND will make key decisions together, the former's role is now limited mostly to construction and promotion, and the project has become more or less a government project, as KOLAND is a public company. Also, faced with the Hyundai Group's financial difficulties, KNTA, a public agency, became a leading participant in the Mt. Kumgang tourism project in June 2001, which will be discussed later. Moreover, because inter-Korean economic cooperation requires the development of North Korean infrastructure, South Korean public firms would have to be deeply involved in North Korean projects, particularly in electricity and transportation projects.

### **6.3.ii The effect on public support for engagement policy**

The second impact of Mt. Kumgang tourism is the contribution to the South Korean public perception of North Korea and of the engagement policy of the Kim Dea-jung government. Compared with the small number of South Korean visitors to the North, 2,405, during previous governments (1988-1997), Mt. Kumgang tourism alone contributed to a dramatic increase in the number of South Korean visitors to the North. As seen in Table 6-3, by the end

of April 2001, the number of Mt. Kumgang tourists soared to 401,760. With a growing number of South Koreans experiencing the visit to Mt. Kumgang in the North, their views on engagement towards North Korea became more positive. As discussed in chapter 4, domestic support is an important factor in Seoul's policy-making decision process, thus in policy outcomes in regard to North Korean issues. Thereby, it can be an important asset for a consistent engagement policy towards North Korea.

**Table 6-3. Numbers of Mt. Kumgang tourist (until 30<sup>th</sup> of April 2001)**

	1998	1999	2000	30/04/2001	Total
Number of	10,554	148,074	213,009	30,123	401,760
tourists	(23 trips)	(255 trips)	(392 trips)	(135 trips)	(805 trips)

Source: MOU (2001a)

The joint survey performed by Research & Research and The Institute for Far Eastern Studies (IFES) of Kyungnam University on October 1999, one year after the start of the Mt. Kumgang tourism, shows how much Mt. Kumgang tourism affected the South Korean public's attitude towards North Korea (Kang Won-taek 1999). It asked both visitors and non-visitors to Mt. Kumgang for their opinions of Mt. Kumgang tourism's contribution, on several inter-Korean issues, as represented in the tables below. Moreover, because this project is a symbol of the Kim Dae-jung government's patient engagement policy towards North Korea, it may reflect South Korean public opinion on its North Korean policy as whole.

As seen in Table 6-4, as to whether the Mt. Kumgang tour was helpful to the respondents in understanding North Korea, 71 percent of the visitors to Mt. Kumgang said "yes," while only 9.1 percent said "no." indicating that the Mt. Kumgang tour greatly helped them in understanding North Korea.

**Table 6-4. Contribution to understanding North Korea by Mt. Kumgang tour (only visitors to Mt. Kumgang)**

Contribution to understanding North Korea	Percentage (%)
Yes, it does	71.0
No, it does not	9.1
Difficult to judge	19.9

Source: quoted from Kang (1999: 6)

When questioned as to whether the Mt. Kumgang tourism project affected the exchange and cooperation between the two Koreas, 62.8 percent of the respondents replied in a positive manner, while 19.7 percent answered “no”. There was a contrast, however, between the visitors and non-visitors. Among the Mt. Kumgang visitors, 71.9 percent of respondents recognised its positive impact on inter-Korean cooperation and exchanges, while only 53.5 percent of non-visitors recognised it. The contrast widens when it comes to the negative responses. While only 6.1 percent of the visitors replied in the negative, a substantial proportion, 33.5 percent of the non-visitors said that Mt. Kumgang tourism did not contribute to exchange and cooperation between the two Koreas.

**Table 6-5. Contribution to inter-Korean exchanges and cooperation by Mt. Kumgang tour**

	Visit to Mt. Kumgang		
	Visitor(%)	Non-Visitor(%)	Average(%)
Yes, it does	71.9	53.5	62.8
No, it does not	6.1	33.5	19.7
Difficult to judge	22.0	13.0	17.5

Source: Kang (1999: 8).

As to whether the Mt. Kumgang tours would contribute to changing the hostile attitude of North Korea toward the South, and lead to opening and reform, a total of 56.6 percent said “yes”, while 26.6 percent of the respondents said “no”. There was also a sharp contrast between the visitors and non-visitors, especially regarding negative attitudes, with

only 8.3 percent of the visitors saying “no”, while a substantial 45.2 percent, of non-visitors said “no”.

**Table 6-6. Contribution to North Korea’s change towards reform and opening by Mt. Kumgang tour**

	Visit to Mt. Kumgang		
	Visitor(%)	Non-Visitor(%)	Average(%)
Yes, it does	67.1	45.8	56.6
No, it does not	8.3	45.2	26.6
Difficult to judge	24.6	9.0	16.8

Source: Kang (1999: 9).

When asked whether the Mt. Kumgang tours would be helpful in changing the attitudes of North Korean people, 56.9 percent of respondents said that it would help to change the consciousness of the North Korean people in the long-run. However, unlike the above two questions, even a substantial portion of the visitors (28.6 percent) doubted the impact of Mt. Kumgang tourism on North Korean citizens’ minds in the short term.

**Table 6-7. Contribution to North Korean people’s change of consciousness by Mt. Kumgang tour**

	Visit to Mt. Kumgang		
	Visitor(%)	Non-Visitor(%)	Average(%)
Yes, it will in the long-term	61.3	52.5	56.9
No, because of North Korean government’s ideological training	28.6	42.2	35.3
Difficult to judge	10.1	5.3	7.7

Sources: Kang (1999: 13).

Overall, the survey showed that Korean people were favourable to the Mt. Kumgang project. In particular, consistent in the answers to various questions was the idea that visitors to Mt. Kumgang see the necessity of an engagement policy towards North Korea. While there is a possibility that it was mainly those with a positive attitude towards the Mt. Kumgang project who took the Mt. Kumgang tours, it is however clear that there is great possibility that

the Mt. Kumgang tours have influenced visitors' perception towards North Korea and inter-Korean relations. For instance, even the opposition party (GNP) member Park Chong-ung, who had been critical of President Kim Dae-jung's sunshine policy, expressed, after going on the Mt. Kumgang tour, the view that such South-North contact would provide a decisive momentum for the improvement of ties between the two Koreas. He realised that it was possible that the North would change, if contacts with the South continued to expand (*Korea Times*, 26 November 1998). Moreover, public support for Mt. Kumgang tourism has continued in the face of Hyundai's financial difficulties in the year 2001. According to the Research & Research survey, 65.5% of the respondents said that the Mt. Kumgang project should be continued through South Korean government financial support or by other means (MOU 2001c).

### **6.3.iii Confidence-building between the two Korean governments**

Thirdly, the Mt. Kumgang tour project contributed to confidence building and to a decrease in military tensions between the two Korean governments. Considering that the Mt. Kumgang area is just 15 km away from the DMZ on the Korean Peninsula, and near the Changjun port, which was an important naval base, the opening of Mt. Kumgang and the port to South Korean tourists might have been considered a threat to military security for North Korea. Therefore, it can be regarded as a great concession by North Korean military authorities. At the same time, with the reality of continuing military confrontations between the two Koreas, and the possibility of a diversion of revenue into Pyongyang's military build-up, and thus growing domestic opposition, the Kim Dae-jung government's permission for Mt. Kumgang tourism was also a risky political decision. Both sides seemed to understand and to appreciate that agreement on the Mt. Kumgang tourism was not an easy political decision for either side.

A clear example of the positive impact of Mt. Kumgang tourism on reducing inter-Korean military tension was the two connected incidents that led to a temporary closure of 45 days of Mt. Kumgang tourism, from 21 June to 4 August 1999. The first incident was in early June 1999, when military tension increased in the Korean Peninsula due to North Korea's



military provocation towards the Northern Limit Line (NLL) of the West Coast of the Korean Peninsula. NLL has been an implicit sea border-line between the two Koreas. North Korea, however, wanted to change it, and North Korean military vessels crossed the line. Following South Korean warnings, an inter-Korean naval clash in the West Sea occurred for 10 minutes on 15 June 1999. North Korea suffered significant losses in the short naval battle: one torpedo boat sunk and five other ships were seriously damaged, together with heavy casualties including dozens of deaths. In contrast, five South Korean naval ships suffered slight damage and seven sailors were injured (*Chosunilbo*, 16 June 1999).

The second incident came less than a week after the naval clash. It was the controversial case of Min Young-mi, a Seoul housewife who was detained for six days, while on tour at Mt. Kumgang, on charges of attempting to persuade a North Korean tourist guide to defect to the South. Seoul ordered the Hyundai Group to cut a monthly payment to North Korea, and postponed the Mt. Kumgang tour until Min Young-mi was released and a new safety-net for Mt. Kumgang tourists established (*Korea Times*, 22 June 1999).

Despite clear defeat in the naval clash and the overall tension in the Korean Peninsula, Pyongyang surprisingly obliged by releasing the detainee and negotiating a safety accord for Mt. Kumgang tourists. It was an apparent signal that North Korea would exercise self-restraint so as not to escalate the fire-fight into a large-scale war, and so as to continue the Mt. Kumgang project. After the Hyundai Group and North Korea's APC reached agreement on stepped-up safety guarantees for the future of the tour program, the South Korean government decided to authorise the resumption of the Mt. Kumgang tour program on 5 August 1999.

The main point of the safety agreement is that South Korean tourists who make "problematic" remarks while sightseeing would be fined and immediately deported to the South Korean cruise-ship without facing penalties such as detention in the North. Moreover, in the event they commit serious crimes against the North, they would be referred not to North Korean authorities but to a joint South-North Coordination Committee, a non-governmental panel to be composed of three to four members each from the Hyundai Group

and North Korea. It was clear that new safety guarantees and guidelines for the tours represented a great progress. Thus, despite a series of incidents which heightened inter-Korean military tensions in the summer of 1999, the ongoing inter-Korean economic projects, including Mt. Kumgang tourism, continued after a 45-day delay. Also, military tension created by the naval clash in the West Sea on June 15, 1999 was sure to be significantly eased with the breakthrough in talks between Hyundai and North Korea aimed at restarting its tour project.

Some South Korean military experts said that North Korea would not launch another round of provocative acts after the miserable defeat on the naval clash on 15 June 1999 because this had exposed the vulnerability of its navy, and because of the deployment of U.S. warship and planes in the South (*Korea Times*, 16 June 1999). However, the decrease of tension could be attributed to both governments' determination at that time. President Kim Dae-jung expressed his will to uphold his sunshine policy of engagement with the North. In the wake of the inter-Korean tension, he stated in no uncertain terms that his engagement policy would be maintained on the basis of firm national security in which North Korea's calm reaction after two incidents should be taken into account.

Moreover, others suggest a more positive impact of the inter-Korean economic cooperation on decreasing inter-Korean conflicts. According to Hyundai Asan officials, the Hyundai Group feared that the two incidents might have negative effects on its inter-Korean projects. However, immediately after the naval clash, Hyundai learned that the North had volunteered to separate the military confrontation from ongoing inter-Korean economic projects, promising verbal guarantees through contacts in Beijing, China (*Korea Times*, 22 June 1999). In fact, it was true that North Korea accepted all of Seoul's demands right after Seoul ordered the Hyundai Group to cut off a monthly payment of US\$8 million to North Korea and to postpone Mt. Kumgang tours, as well as sending a signal to the North that they have to even consider cancelling all South-North economic joint ventures. Even the *Korea Times* editorial (27 June 1999: 3) pointed out that:

Seoul was now in a position that threats to economic interests can change the obstinacy of hard-line communist ideologues in the North. This signifies a change from Pyongyang's traditional behaviour pattern. Until recently, North Korea had rarely compromised on political matters in the name of economic expediency. Seoul now has the option of using its economic leverage to deal with the intractable and capricious North Korea.

It was, however, uncertain as to how much North Korea's deepening economic dependency on South Korea might change North Korea's behaviour. What was certain was that Pyongyang did not want to give up the tour project, which was its most reliable source of hard currency, or other examples of ongoing inter-Korean economic cooperation, despite the deepening tension in the summer of 1999. The Mt. Kumgang project was used as a signal for the two sides' intention after the naval clash, and thus prevented misunderstandings. With the difficulty of governmental level talks between the two Koreas during the crisis, Mt. Kumgang tourism provided an important dialogue channel between the Hyundai Group and the APC of the North, through which the two governments could also communicate.

#### **6.4 Financial crisis of the Mt. Kumgang project**

Despite the positive impacts of Mt. Kumgang tourism on inter-Korean relations as discussed above, Mt. Kumgang tourism was in serious danger. Unlike the frequent suspension of inter-Korean businesses caused by inter-Korean political and military tension in the past, this was caused by both Hyundai Asan's financial trouble and the unprofitability of the tourism. After two and half years of the tourism project, the Hyundai Group began to feel frustrated at pouring money into the tourism project. It only paid a US\$2 million monthly fee for the Mt. Kumgang project to North Korea in February 2001, instead of the promised US\$12 million. Since then, it missed three successive monthly payments (March, April, and May of 2001) until the South Korean government offered a South-North Cooperation Fund (SNCF) loan. Although North Korea provisionally agreed to cut in half the monthly fee, as Hyundai Asan demanded, the company still owed US\$22 million, instead of US\$46 million (*Joongangilbo*, 31 May 2001). Despite Hyundai Asan's will to continue the tour project, it was no longer in a

position to even pay the monthly tourism fee to North Korea. Hence, Mt. Kumgang tourism was in danger of ending in 2001 if some sort of rescue plan could not be found.

#### **6.4.i Hyundai Group's financial woes and disintegration**

One reason for the crisis of Mt. Kumgang tourism was based on the Hyundai Group's broader financial troubles. South Korea's largest conglomerate was in serious financial difficulties. Group-wide restructuring hindered financial aid to Hyundai Asan. The Hyundai Group's construction, financial, petrochemicals, shipping and general trading units all suffered from a liquidity problem from late 2000.<sup>67</sup> Symptoms of the Hyundai Group's financial woes appeared in Hyundai Engineering Construction (HEC), a mother company of the Hyundai Group. HEC posted a net loss of nearly 3trillion won (US\$2.3 billion) in 2000, and was on the verge of bankruptcy in late 2000.

As part of efforts at a self-rescue plan for the HEC, Chung Ju-young invested US\$60 million, from the sales of his 15.66 million shares in Hyundai Motor, into HEC equity. Moreover, the Hyundai Group put on sale the Hyundai head-quarter building, which is estimated to be worth US\$140 million, and sold the Hyundai owned Sosan Farm to private investors. Also, Hyundai Corp. downsized its organisation by closing down 13 of its overseas offices, reducing departmental numbers and retiring 20 of its 43 top executives (*Korea Herald*, 27, 28, 30 December 2000).

The South Korean government was also involved in the rescue plan. The government endorsed a move by creditor banks to craft a 2.9 trillion won (US\$2.2 billion) financing package, including a 1.4 trillion won debt-for-equity swap, for HEC, the mother company of Hyundai Group. The Kim Dae-jung government kept saying that creditors would have the

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<sup>67</sup> In addition, two factors caused for Hyundai Group's wider financial troubles. First, the Hyundai Group was just about the only conglomerate that was expanding instead of downsizing under the cosy relationship with Kim Dae-jung government even during the financial crisis. Hyundai had to raise money for new businesses. Second, new regulations after 1997 financial crisis pressured the Hyundai Group. Under the prevention of cross payment guarantees among subsidiaries in different industries, Hyundai Group had to resolve past problems to save its affiliates before the March of 2000 deadline at an estimated cost of up to US\$1.7 billion. Also, it had to reduce debt from 578.7 percent to less than 200 percent of its capital by the end of 2000 under the new 'chaebol regulation' (interview with junior

final say in how to handle the company's debts, and that it would not become involved in Hyundai Group's financial problems. However, it was reported that the economic policy team of the government was ready to participate in the rescue efforts to save the firm from the beginning of the Hyundai Group's insolvency crisis (*Chosunilbo*, 29 March 2001).

In fact, strong suspicions about the government's special treatment of Hyundai Group were raised because the original financial aid from the Hyundai Group's creditors, mostly Korean banks, was only in the value of 1.4 trillion won and took the form of debt-for-equity swaps rather than new money. However, the final rescue plan was increased two-fold on the original plan. Instead of forcing the ailing Hyundai companies to face market judgement as in the government's handling of the Daewoo Group, which had collapsed, the government influenced creditor banks to extend preferential loans so as to keep Hyundai afloat.<sup>68</sup>

With continuing rescue efforts, the HEC stayed afloat. However, problems for the Mt. Kumgang tourism continued. The Hyundai Group had established Hyundai Asan on 5 February 1999 to concentrate businesses with North Korea. Hyundai Group affiliates, Hyundai Merchant Marine (HMM), Hyundai Heavy Industries (HHI), and HEC provided most of the paid-in capital of US\$391 million of the Hyundai Asan. The HMM has a 40 percent equity stake in Hyundai Asan, and HEC and HHI each owned 20 percent stakes in the firm (Hyundai Asan 2000d).

Because all the Hyundai Group affiliates involved in the Mt. Kumgang project were in serious financial trouble, they were not able to help the Mt. Kumgang project. For instance, HEC, once a mother company of Hyundai Group, was separated from the Hyundai Group on 1 August 2001. The Korea Exchange Bank, Korea Development Bank and other creditor institutions together held an 87 percent stake in HEC, while the stake held by the Hyundai

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official in the Fair Trade Commission of South Korea, Seoul, March 2001. Also see *Korea Times*, 4 March 1999, and 21 April 1999).

<sup>68</sup> *Korea Herald* editorial (13 March 2001: 3) pointed out that 'the continuous cash infusions into Hyundai are triggering the deeper suspicion over alleged collusion between the government and the Hyundai Group.

Group was only 3 percent. Thus, the HEC no longer had links to the Hyundai Group in terms of the selection of board members and in-house transactions. Also, HHI, another Hyundai Group affiliate, would be spun off soon from the Hyundai Group (*Korea Herald*, 21 July 2001).

Most importantly, the HMM, which was the core financial line in providing promotion and sales services, and operating the cruise ships for Mt. Kumgang tourism for the past two and half years, had its balance sheet shift into red in 2000, with a loss of 406 billion won (US\$300 million), compared with a profit of 211.2 billion won (US\$160 million) in 1999. Hyundai Asan creditor groups including the Foreign Exchange Bank, strongly demanded a halt to the money-bleeding tourism project, and were pressing the HMM, which had lost a total US\$227 million from the project, to give up its position as the holding company of Hyundai Asan (*Joongangilbo*, 11 April 2001).

Under pressure from the creditors, HMM for the first time cancelled 10 cruise tours to Mt. Kumgang scheduled for April 12-17 2001. At the end of May it withdrew its three ships, the Kumgang, the Pongnae, and the Pungak, and gave up the business of a speedboat “Sulbong” tour and the boat-hotel (*Haegumgang*) in the Changjun port (*Joongangilbo*, 3 June 2001). Finally, HMM completely withdrew from its Mt. Kumgang tour business by selling off *Haegumgang*, which had suspended its business since 2000 due to a shortfall in tourists, and its speedboat business, the *Sulbong*, to Hyundai Asan (*Joongangilbo*, 10 July 2001). The reduction in scale of tour services indicated that the Hyundai group had reached the limits of its ability to continue the money-losing project.

Furthermore, Hyundai Group’s continuing disintegration also hindered support for the Mt. Kumgang tourism. Particularly, the death of Chung Ju-young on 21 March 2001, who had been a leading proponent of commercial exchanges between two Koreas, had a negative impact on the business will of the Hyundai Group to engage with North Korea. His death may in fact have provided the Hyundai Group with a way out of its risky North Korean ventures.

This turned out to be partially true. Company unity disintegrated along with his death, as he placed all the companies in the hands of his sons.<sup>69</sup>

The problem for the continuation of Mt. Kumgang tourism is that the third son, Chung Mong-hun, who was charged with North Korean business, has taken over the HEC, HMM, HEI and Hyundai Asan, all of which are financially troubled companies. As indicated earlier, HMM had already withdrawn from the Mt. Kumgang tourism. The HEC was majority-owned by creditor banks while the HEI was shortly to be renamed Hynix Semiconductor, after being on the verge of bankruptcy. In fact, the newly elected Chairman Park Chung-sup of the Hynix Semiconductor disavowed any connection with Hyundai (*New York Times*, 26 April 2001).

Moreover, other Hyundai companies, taken by other sons, worried about their own balance sheets and cash flows, and would not come to the rescue of Hyundai Asan's North Korean projects. For instance, Chung Mong-koo, the first son of Chung Ju-young, who took over the Hyundai-Kia Motor Group, currently the most profitable and financially healthy company of the former Hyundai affiliates, responded very negatively when the government suggested that he take part in the tourism business headed by his brother Chung Mong-hun.

#### **6.4.ii Profitability of Mt. Kumgang tourism**

The basic problem causing danger to Mt. Kumgang tourism is its continuing unprofitability. The nation's largest conglomerate has poured hundreds of millions of dollars in the North Korean project, but has yet to see any profits. Despite the lower-than-expected number of tourists to Mt. Kumgang, Hyundai Asan, a company funded by eight of the Hyundai Group's

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<sup>69</sup> While the first son, Chung Mong-koo, holds the Hyundai-Kia motor group, the HHI, the largest shipping group in the world and also one of the key holders of Hyundai Asan, will remain under the control of the fifth son, Chung Mong-joon, and it will leave the Hyundai umbrella in 2001. Moreover, Chung Mong-keun has a stable position as chairman of Hyundai Department Store Company and Chung Mong-yoon is a chairman to Hyundai Marine and Fire Insurance. Both divisions have separated from the Hyundai Group. High officials at the group headquarters said that such splitting up of the group was inevitable and there was no Hyundai Group anymore (Interview with Hyundai Group officials, Seoul, February 2001).

firms, continued to invest into the tourist project, in line with group founder Chung Ju-young's will.

However, after two years of Mt. Kumgang tourism, profitability became the core issue. According to the deal between the Hyundai Group and North Korea, Hyundai Asan's total payment is US\$942 million towards North Korea for six and half years, based on up to US\$150 million a year. This amount was based on Hyundai Asan's early expectation of a break-even point, which required 500 thousands tourists to Mt. Kumgang a year, and for each tourist charged, US\$300 went to the North Korean government (*Korea Times*, 10 October 1998).

However, the number of tourists who have taken Hyundai Asan's cruise to North Korea stood at around 185,000 a year, which is far below the break-even point of 500,000 tourists, and Hyundai Asan's early expectation of 600,000, meaning that it suffered a visitor shortfall averaged over 315,000 per year (see Table 6-3). Moreover, the number of tourists to Mt. Kumgang substantially decreased in the year 2001, mainly due to reductions in Hyundai's tour service, and a loss of tourists' interest in Mt. Kumgang. In fact, Hyundai Asan has gradually reduced the number of tours from the maximum 41 tours a month to only 13 in May 2001. The number of tourists to the Mt. Kumgang was less than one third of full capacity. Hence, compared to 13,000 tourists in January, 16,000 in February and 21,000 in March 2000, in 2001, 6,472 tourists were recorded in January, 7,349 in February and 10,443 in March (*Joongangilbo* 24 May 2001).

Moreover, early pessimistic views on attracting tourists were realised. Many tourism watchers had earlier pointed out that the competitiveness of prices on the Mt. Kumgang tour was so low compared with other destinations, even for South Korean tourists, that it would need better attractions and services not only for South Koreans but also foreigners in the long-run, though the South Koreans' inquisitiveness would lead to an increase of tourists in the short run (Lee Ki-wang 1998: 55-6). In fact, the continuing losses were caused in part by fact that Hyundai failed to broaden the appeal of the cruise to young Koreans and to foreigners. Most people on the tour were elderly Koreans, who were attracted by the sentimental value of



Mt. Kumgang, a cultural icon on the peninsula. Most young Koreans however said that they would prefer to take a tropical holiday rather than brave the long, cold North Korean winter (Interview with Mt Kumgang travel guide, Mt. Kumgang, September 1999).

As a result, deficits from the project amounted to US\$379 million from the start of the project on November 1998, until the end of 2000. The Mt. Kumgang tourism was also reportedly losing US\$150,000 a day in 2001 (*Joongangilbo*, 11 April 2001). Hyundai Asan, has already depleted 500 billion won (US\$391 million) of its capital.

**Table 6-8. Balance sheet of Mt. Kumgang tourism from Nov. 1998 until year 2000**

Earnings		Expenditures	
Item	Amount (US\$ Million)	Item	Amount (US\$ Million)
-Tour cruise fee	220	-Lump-sum payment for Mt. Kumgang tour right	330
-Spa and sale of goods	13	-Cruise rent fee	156
		-Tourism infrastructures such as a port, a spa, a performance hall, and a customer pavilion.	126
Total Earnings	233	Total Expenditures	612
Total Balance Sheet:		612-233=	Deficit of 379

Source: Data from Hyundai Asan and quoted from *Hankookilbo* (9 January 2001).

#### **6.4.iii Efforts to save Mt. Kumgang tourism**

##### **6.4.iii.a Hyundai Asan's requests**

Despite Hyundai Asan's self-rescue efforts, such as reducing the number of its cruises and urging banks for loans in order to save Mt. Kumgang tourism, the situation continued to grow worse due to the Hyundai Group's financial woes and the profitability problem of the tourism. Hyundai Asan presented several contingency plans to both the South and North Korean governments. Firstly, Hyundai Asan expressed its hope to lease its newly-opened floating hotel, 'Haekumgang' to operate a casino business for Mt. Kumgang tourists. Hyundai Asan

sent a letter to the Kim Dae-jung government on 25 December 2000 requesting a business licence for a casino operation aimed at attracting casino tourists. It argued that ‘unless the government issues a casino permit for the Mt. Kumgang area, the company would probably cease its business there’ (quoted in *Korea Times*, 26 December 2000).

In the view of Hyundai Asan, the casino business was to attract foreigners, as well as South Korean tourists. In fact, North Korea had already sent a positive signal to Hyundai Asan. Hyundai Asan and North Korea’s APC had agreed that the joint Mt. Kumgang tourism project included provisions for opening casinos in the North. The North promised Hyundai a ‘legal collateral’<sup>70</sup> needed to establish the additional business (*Korea Times*, 26 June 2001).

Thus, the casino issue was in the hands of the South Korean government. In fact, the idea of a casino for Mt. Kumgang tourists seemed to be quite appealing to Seoul officials, who thought that the new business might greatly help Hyundai Asan to overcome its financial problems, which stemmed from the expensive Mt. Kumgang project. At the same time, the opening the proposed casino would cause considerable controversy in the South because as most of the Mt. Kumgang tourists are South Koreans, they would also be the likely customers of the casino. Hence, the MOU, in charge of inter-Korean cooperation, ran into a dilemma over Hyundai Asan’s request for a casino business to save the Mt. Kumgang tourism business. A senior official of MOU, for instance, stated that “if we give the go-ahead to Hyundai’s plan to open a casino in its tourism complex in the North, it would help ease the conglomerate’s liquidity crisis, but it would run squarely counter to the government’s policy to ban gambling” (quoted in *Korea Herald*, 28 December 2000). Thus, Seoul stepped back and argued that it was not in a position to decide on the casino business, as the maritime hotel was on North Korean territorial waters, meaning that Seoul would not oppose the proposal as North Korea had already send positive sign to Hyundai Asan.

However, this plan did not succeed because domestic criticism came thick and fast from the conservative circles, including the media and the opposition party. Especially the

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<sup>70</sup> According to Park Kyung-yoon, the president of Kumgangsan International Group and North Korean business specialist, the North Korean government already had plans to induce casino facilities to

residents of the Kangwon province of South Korea strongly protested against the South Korean government's position that North Korea held the rights to approve Hyundai's plan to open a casino in its tourism complex in the North, and they formed an urgent committee to prevent Hyundai from building the casino (*Joongangilbo*, 24 April 2001). The reason behind the opposition was that the Chongsun county of the Kangwon province was authorised in 2000 as the first and only casino in South Korea, to allow South Korean citizens to gamble, in an attempt to revitalise the region's economy, which had suffered after a local mine was closed. Hence, the Kangwon province people were worried about the negative impact of competition from the Mt. Kumgang casino business.

Secondly, Hyundai Asan demanded that North Korea accept a new payment method based on the number of tourists instead of the US\$6 million monthly fee. In fact, North Korea provisionally agreed to cut Hyundai's payment from US\$12 million to US\$6 million a month. However, Hyundai had even failed to pay this reduced monthly payment in February, March, April and May in 2001, as it faced financial problems and the HMM, a core financial line for Hyundai Asan, withdrew from the project. Thus, it still had to pay an accumulated debt of US\$22 million to North Korea, as pointed out earlier. And it still required at least 250,000 tourists a year in the future, which was far more than the current trend, in order to reach break-even point. Thus, Hyundai Asan asked North Korea for a change in the payment system from a flat rate basis, to a number of tourists basis. After a series of negotiations between Hyundai Asan and North Korea, they finally agreed to Hyundai's demand on 9 June 2001.

After the deal, Hyundai Asan remitted Mt. Kumgang tourism fees for June 2001 to its North Korean partners, the Asia-Pacific Committee. It said it sent US\$399,200 via banks in Hong Kong. Although the new payment deal does not guarantee that a future deficit will be avoided, this was the first time that Hyundai has remitted fees for the tourism based on a per head fee per month, rather than a flat rate of US\$12 million. A Hyundai Asan official said that the company would pay a US\$100 license fee per tourist until an overland route tour to the

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develop Mt. Kumgang as a tourism site as early as 1990 (*Joongangilbo*, 15 July 1996).

Mt. Kumgang opens. When this starts, the fee will go down to US\$50 per tourist (*Korea Herald*, 27 July 2001).

Thirdly, Hyundai Asan demanded that North Korea realise the overland route tours as soon as possible. It would make the tour of Mt. Kumgang cheaper and easier. Compared to taking 15 hours from Donghae port in the east region of the South Korea to Changjun port in the North, on the overland road, by bus, it takes less than an hour to reach the Mt. Kumgang area. The reconnection of the overland road between South and North Korea would be just 14km in length. Mass transportation would make the resort far more accessible and cheaper to visitors from the South, including for example, school excursions (*Korea Herald*, 9 March 2001).

Hyundai Asan and North Korea finally reached a deal to establish an overland tourist route between the two Koreas along with the above new payment condition, on 9 June 2001. The two sides agreed to open a 13.7km overland tourist route from South Korea's Paju to North Korea's Kosung, near Mt. Kumgang. Even though the exact date for construction and start of the overland tour is not certain, this certainly will give new strength to the project in the future.

#### **6.4.iii.b South and North Korean governments' efforts**

The agreement made on the 9<sup>th</sup> of June 2001 between Hyundai Asan and North Korea gave the Kim Dae-jung government political justification for the public sector's involvement in this project. Hence, KNTTO, the public tourism promotion agency, announced on 20 June 2001 that it would take part in resuscitating the so far unsuccessful business. It planned to raise funds, either from bank loans or the government's SNCF, to purchase Hyundai Asan assets, or assist Hyundai Asan to raise US\$22 million to pay North Korea (*Joongangilbo*, 20 June 2001).

Then, the Kim Dae-jung government approved the use of the SNCF for the state-run KNTTO to promote Mt. Kumgang tourism in the North. As a result, the MOU, which is in charge of managing the SNCF, confirmed a loan of 90 billion won (US\$70 million) on 29

June 2001 (*Chosunilbo*, 29 June 2001). In fact, the government was trying to help the financially challenged Hyundai Asan through the SNCF, but was not able to do that because of legal limitations, such that the SNCF could not be used for loans to the top thirty chaebol groups of South Korea, as it was designed to encourage small and medium size companies to do North Korean business (*Chosunilbo*, 6 March 2001). However, the government found a way, through KNTTO's participation, as KNTTO was eligible for the loan.

However, the Kim Dae-jung government seemed to be already planing public sector participation in Mt. Kumgang tourism as a contingency rescue plan. Hyundai was highly questionable whether it was in any condition to commit nearly US\$1 billion to North Korea, as was called for in the original agreement with the North. It was suggested that 'when questioned about this, Hyundai officials indicated that the government would "make it up to us", a claim that was verified in private conversations with government officials' (Noland 2000: 116).

In fact, this argument seems to be persuasive, considering Seoul's intervention efforts in the Mt. Kumgang project. In the early stages of the Mt. Kumgang crisis, Seoul tried to save Mt. Kumgang tourism through indirect support. The government allegedly delivered its opinion, during the fourth inter-Korean ministerial talks in mid December, that the North should settle for a 50% reduction of the US\$12 million monthly fee in order to continue the business (*Korea Times*, 26 December 2000).

However, Hyundai Asan continuously failed to pay the monthly license fees to North Korea in 2001 despite North Korea's approval of the half reduction in the fee, so the South Korean government needed a stronger contingency plan. Furthermore, the situation became critical when the Hyundai Group's founder Chung Ju-young died on 21 March 2001. Economic engagement towards North Korea was facilitated after Chung Ju-young convinced Pyongyang to let him run tourist cruises to Mt. Kumgang from November 1998. Even with the huge financial losses from the Mt. Kumgang tour business, it was the North Korean born Chung Ju-young who pioneered the project and that was enough to keep it afloat. However, his sons may have no such sentimental attachments to the business, and may withdraw from

an earlier commitment as they try to save their struggling companies. Likewise, they may excuse Hyundai from helping build a planned Kaesung economic special zone in the North (*Korea Herald*, 31 March 2001).

This possible scenario posed a serious dilemma for the Kim Dae-jung government. Given the importance of engaging the North, Seoul probably set the contingency plans to save Hyundai's North Korean businesses. This included pressing other South Korean chaebols to pick up the slack and directing support through the state-run agency. The South Korean Deputy Prime Minister, Jin Nyum, reportedly mentioned, for the first time, the possibility of other private or state-run firms taking over the Mt. Kumgang project from Hyundai Asan (*Joongangilbo*, 22 May 2001). Hence, Seoul asked other chaebols such as Samsung and the Hyundai-Kia Motor Group to take over the project, but these efforts failed.

Thereby, the government decided to become directly involved in this project. However, it needed a justification for state involvement. The deal on 9 June 2001 between Hyundai and North Korea was such an excuse for the Kim Dae-jung government. According to an interview with Cho Hong-kyu, the President of the KNTA, in *Chugandongga* (South Korean weekly magazine), the Kim Dae-jung government already had a plan for public sector participation in Mt. Kumgang tourism. Cho Hong-kyu said that the KNTA consulted with the Ministries of Culture and Tourism, and of Unification, and with the NIS before they decided to join the Mt. Kumgang business with Hyundai Asan. But the KNTA did not review, and had never considered, the profitability of the participation in the tour, but decided to participate because the MOU guaranteed the provision of the SNCF to KNTA even before it made its decision (*Chugandongga*, 5 July 2001). In fact, his remark contradicted the government's announcement that the decision was independently made by the KNTA, and that assistance from SNCF to the agency was strictly on the grounds of the profitability of the project. This should be enough circumstantial evidence to ascertain that the Seoul already had a plan for the state agency's participation in the Mt. Kumgang business in case other options were not available.

In fact, the Kim Dae-jung government's will to utilise public sector massive investment towards North Korea was evident on various occasions. For instance, in response to domestic criticism of Seoul's revocation of its principle of 'the separation of the economics from politics', by allowing KNTTO's participation on the Mt. Kumgang tourism, the MOU (2001c) redefined the principle of *Jeongkyungbunri*. It argued that:

[t]his principle is aimed at the improvement of inter-Korean relations and the increase of economic cooperation between the two Koreas, and thus the South Korean government set the principle that inter-Korean political and military tensions would not be factors for the limitation of inter-Korean economic exchanges. The principle, however, does not mean that public sector cannot be involved in inter-Korean economic exchanges. Because early stage of inter-Korean economic cooperation by private sectors can bring financial difficulties and problems, South Korean government's financial support will be desirable in order to achieve its policy objectives towards North Korea. The government's financial help through South-North Cooperation Fund was based on the fact that the improvement of Mt. Kumgang tourism through the realisation of overland route tour and designation of Mt. Kumgang tourism zone, which is guaranteed by North Korea, would decrease the security threat from North Korea.

North Korea also seemed to worry about the possible cancellation of the Mt. Kumgang projects. For instance, Song Ho-kyung, vice chairman of the North Korean APC, said that he hoped Hyundai would continue its North Korea projects after the death of the Hyundai Group's founder Chung Ju-young. He sent Mr. Chung's family a message from Kim Jeong-il in which the North Korean leader expressed the hope that the Chung family would take over and carry on North Korean projects (*Joongangilbo*, 26 March 2001). More importantly, North Korea was ready to cooperate with the South Korean side, both with Hyundai Asan and the South Korean government, in order to continue this project. For instance, it accepted all the rescue-proposals that Hyundai Asan and South Korean government requested, such as the fee reduction and the opening of the casino, and it finally agreed to on an over-land tour, and to an adjustment of the tour fee on the 9<sup>th</sup> of June 2001.

## **6.5 South Korea's limited economic capability for pursuing business-track diplomacy**

As pointed out in the model of business-track diplomacy, a state's economic capability is an important prerequisite along with policy-makers' will in order to actually perform business-

track diplomacy towards a target state. While the Mt. Kumgang case demonstrates that the actors' strong policy-making will towards the realisation of the project certainly contributed to an increase in inter-Korean cooperation and to a decrease in tensions, this case reveals, at the same time, South Korea's limited economic capability to implement deeper economic engagement with North Korea.

The first implication is that South Korean private companies, even the chaebols, cannot pursue alone large-scale inter-Korean projects. As seen in the Mt. Kumgang tourism case, the Hyundai Group, the prominent chaebol of South Korea, could not sustain the large-scale economic project without the prospect of profitability. As pointed out in chapter 4, especially after the financial crisis, the South Korean business community became more financially conservative, limiting risky investments and new businesses. As seen in the Hyundai case, the profitability of the North Korean venture became an important standard for South Korean firms in doing business with North Korea.

Moreover, South Korean chaebols were deeply influenced by foreign finance. The problem was that foreign investors were likely to avoid investment in South Korean companies that are heavily involved in risky North Korean businesses (Yang Un-chul 2001). Even the rumour of this could hurt a company who might have engaged in a large-scale North Korean project. For instance, Chung Mong-ku, the chairman of the Hyundai-Kia Motor Group, said that they would take all possible legal action against such a report, including filing complaints with the Press Arbitration Commission, and asking for financial damages against a possible decline in corporate value (*Joongangilbo*, 9 April 2001).

Secondly, raising finance at the governmental level for large-scale inter Korean cooperation is also not easy. As South Korea's private sector needs outside financial support for long-term North Korean projects, South Korean government could be one of the sources. In fact, as inter-Korean economic exchanges grow and become large-scale, requiring massive financial support, the Kim Dae-jung government believes that the public-sector's active involvement in inter-Korean projects will be necessary, and so the government will go beyond the principle of the separation of economics from politics.



Especially since the June summit between the two Koreas in 2000, the Kim Dae-jung government has pursued a long-term and enlarged inter-Korean economic community, and recognised that the South Korean government will need to be actively involved in order to achieve this end. The crucial reason behind this policy is that the activities of the private sector are insufficient. Economic exchange based on private sector involvement alone can only play a limited role in reconstructing and transforming North Korea into a more market-oriented economy and society, thereby deepening the interdependence between the two economies.

However, government level involvement in inter-Korean economic cooperation is not easy. The Mt. Kumgang tourism case has shown that the Kim Dae-jung government was stuck in a dilemma between conflicting interests: it wants to see the Mt. Kumgang business continue as a symbol of its engagement policies, but faces difficulties in extending financial support to private firms. Even when Hyundai Asan faced financial difficulties, and failed to pay the license fee to North Korea, putting the entire project on the brink of cancellation, the government could not take any relief measures, such as providing financial support, giving permission for the casino business, or bringing other chaebols to take over the Mt. Kumgang project.

Only after Hyundai Asan and North Korea made a deal on 9 June 2001, which looks more promising in terms of the profitability of the project, could the KNTTO participate in the project and provide financial support. However, if Mt. Kumgang tourism was continuously to drain money without improving its prospect of profitability, then the public sector's involvement would be in a difficult position in the future. An official of MOFAT pointed out that unless major issues were addressed by North Korea to help Hyundai Asan's Mt. Kumgang business, the government could not take any measures politically (Interview with a junior official of the MOFAT, London, December 2001).

Seoul's difficulty has much to do with the strengthening of domestic actors in the South Korean policy-making process. Domestic pressure came from the predominantly conservative media and the opposition party's criticisms of the government, which started in

the early stages of the Hyundai Group's financial trouble. Their arguments were that the government's financial assistance towards the Hyundai Group, who did not seem to care about economic logic, and the group's losses from the Mt. Kumgang project, played a role in the group's economic difficulties. The media pointed out that the project influenced negatively the national economy both directly and indirectly; Hyundai's North Korean business was not only a matter of inter-Korean relations but also closely related to the national economy. For example, the conservative newspaper *Chosunilbo* argued that the financial assistance provided to HEC would in the end become a burden on the public, and that Hyundai's liquidity problems were linked to its ventures in the North (*Chosunilbo*, 27 December 2000).

Regarding the government's attempt to bring other chebols into the Mt. Kumgang project, as discussed earlier, conservative media groups such as *Chosunilbo* and *Dongailbo* also raised objections. A *Dongailbo* editorial said that:

Hyundai Motor holds considerable foreign equity. Hence, if Hyundai Motor knuckles under to any government pressure to undertake North Korean programs, the situation will be complicated. Foreign investors' trust in the Korean government and the Hyundai auto firm would plummet and the nation's economy would face a crisis with the prospective non-viability of the nation's largest car makers. The goal of any enterprise is to make profits. The decisions on new businesses should be made on the basis of feasibility and own analysis of profitability. From this standpoint, Hyundai Motor's rejection of the alleged government offer to take over the North Korean projects is quite natural and even courageous. At the same time, all other enterprises may well learn from the example set by Hyundai Motor. Whenever they face this kind of government pressure. Whatever projects the government may promote in the name of the people, it should not undertake them in this manner. The general public will never concur on any government tricks that run against market principles or any irregular policy measures (*Dongailbo*, 9 April 2001).

When its intervention became a troublesome issue, the government had to sit back and claim that it never officially advised or requested the Hyundai Motor to do anything, though Hyundai Motor officials felt more or less coerced, and said that 'we will stake out our company's fate on opposing it' [taking-over of the Mt. Kumgang project] (quoted in *Joongangilbo*, 10 April 2001).

Thirdly, attracting foreign investment for North Korean businesses is not easy. In the Mt. Kumgang tourism case, the Hyundai Group knew that it needed outside financial support

even before it faced financial trouble. Thus, it tried to attract foreign capital to develop the Mt. Kumgang business in the long-term. It held investment explanation sessions and road shows in the United States and other advanced industrialised countries to attract capital for the project. Also, Hyundai Asan requested the World Tourism Organisation (WTO) to engage in studies on a marketing program for attracting foreign investment and tourists to Mt. Kumgang tourism (*Korea Times*, 9 May 1999).

However, as the Hyundai Group's financial situation got worse, and Mt. Kumgang tourism proved to be unprofitable, it failed to attract any investment from overseas. It might be true that even if the Hyundai Group had enjoyed a healthy financial status, it would have been difficult to attract foreign investment because Mt. Kumgang tourism required heavy up front investment with returns occurring at a far slower pace. For instance, the Hyundai Group has tried in vain to conclude a US\$1 billion investment deal with a group of Japanese financial institutions even before it faced financial problems, but it has not succeeded yet. Moreover, the U.S. corporations have limited themselves to fact-finding missions in the North (*Joongangilbo*, 7 November 2000).

Beyond North Korea's poor prospect of luring foreign capital, as pointed out in chapter 4, the difficulty of inviting foreign capital into North Korean businesses is also due to the US and Japan's lack of political will towards economic engagement with North Korea. Thus, possible ways of boosting foreign capital into North Korea remain unrealised. For instance, the US has not lifted its economic sanctions toward North Korea, and Japan could not resolve the normalisation and the 'compensation money' issues with North Korea, while international financial organisations, such as the IMF, the IBRD, and the ADB did not admit North Korea's membership, due to US influence. Thus US and Japan's business communities' economic engagement has been limited by continuing political and military tension between North Korea and their governments.

Fourthly, North Korea's lack of experience and general knowledge about capitalism has also caused the slowdown of the inter-Korean cooperation. For instance, North Korea's policy control over Mt. Kumgang tourism reduces the attractiveness of the tourism. The

North's policy of opening the mountain to South Koreans is based on an 'internal isolation' of the tourist sites. In fact, South Korean tourists called it a 'hedgehog tour.' North Korea set up fences with barbed wire on both sides of the 10km road from the naval port to the entrance of Mt. Kumgang and military guards were spotted on major parts of the passage. Furthermore, residents in the small village of Onjong-ni, one of the gateways to the mountain, put up brick walls, apparently designed to completely insulate their houses from the tourist activities outside.

Thus South Korean tourists expressed discontent with the limitations on free movement in the tourist site and on free contact with North Korean people. However, North Korea has not been keen to meet these complaints, mainly because Hyundai promised the lump-sum payment to North Korea regardless of the number of tourists. Thus, the biggest problems is that the Northern partner of the joint venture, lacks a proper incentive in the profitability of the tourism (Yoon Sang-rul 2000). They tend to show no interest about how to improve conveniences and services provided to the tourists, and service improvements usually take quite a long time to get the approval of their higher authorities even on small details.

One thing that the Hyundai Asan people in charge of customer service are most concerned about is that they are not in a position to solve the problems tourists raise concerning the sightseeing course, as many of them require the North's approval. The tourists want to talk with North Korean people, or try their foods on their visit to Mt. Kumgang. It is also impossible to accept various entertainment programs made for the tourists by the sponsoring organisations for sightseeing of Mt. Kumgang as long as they are to be done in the North's territory. The North sticks to their principle of limiting the sightseeing to the scenery of the Mt. Kumgang, though there are South Korean organisations that want to hold religious or other events on the course. However, there are too many restrictions on the sightseeing of Mt. Kumgang: no smoking, no photographing (in certain areas), and so on. In other words, most South Korean tourists want to meet various North Korean cultures and have individual

activities freely rather than merely see Mt. Kumgang (Interview with officials of H Hyundai Asan and Mt Kumgang tour guide, September 1999).

North Korea's lack of a sense of capitalism and their sensitivity about internal stability will cause problems in the future for inter-Korean economic cooperation. For instance, even though the North Korean authorities provided H Hyundai with exclusive rights to develop the Kaesung economic zone, there will be difficulties such as raising funds from outside, the poor infrastructure of North Korea, and Pyongyang's excessive interference in economic activities. In fact, most South Korean companies are worried that the North Korean government will use its power to prevent 'capitalist contamination', through limitations on South Korean companies' activities, even in the economic free zones. However, considering North Korea's concern over political stability, this problem would not be easy to solve. The chronology of the Mt. Kumgang project is summarised in Table 6-9.

**Table 6-9. Chronology of the Mt. Kumgang project**

<b>Date</b>	<b>Event</b>
15/01/1989	Chong Ju-young and North Korea reached an agreement to develop the Mt. Kumgang tourism project.
16/05/1991	North Korea announced that the deal with H Hyundai Group was not valid because of South Korean government's intervention.
12/02/1998	The Undertaking Committee of the Presidency of Kim Dae-jung announced the Mt. Kumgang project as one of 100 agendas of the incoming Kim Dae-jung government.
14/02/1998	Chung Mong-hun, the third son of Chung Ju-young, contacted North Korean officials in Beijing to restart Hyundai's North Korean businesses.
17/06/1998	Chung Ju-young took the first trip to Pyongyang with a gift of 500 heads of cattle to negotiate Mt. Kumgang project.
23/06/1998	Hyundai Group announced that Mt. Kumgang tourism would be launched on 25 September 1998.
27/10/1998	Chung Ju-young made his second trip to Pyongyang with the remaining 501 heads of cattle.
18/11/1998	Hyundai Group's 'Kumgang' cruise ship took off towards Mt. Kumgang for the first time.

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05/02/1999	Hyundai Group established the 'Hyundai Asan' corporation in order to concentrate North Korean businesses.
15/06/1999	There was a naval clash on the West Coast between the South and the North Korean military.
20/06/1999	North Korea detained South Korean housewife, Min Young-mi, under charges of spying operation during a Mt. Kumgang tour.
21/06/1999	The Kim Dae-jung government ordered the Hyundai Group to stop Mt. Kumgang tourism.
30/07/1999	Hyundai Group and North Korea reached an agreement on the safety-net measures for the Mt. Kumgang tourists.
05/08/1999	Mt. Kumgang tourism was resumed under Kim Dae-jung government's approval.
22/08/2000	Hyundai Group and North Korea reached an agreement that Hyundai Group develop Kaesung Industrial Complex as economic free zone.
February 2001	Hyundai Asan began to fail to pay in the monthly license fee to North Korea.
21/03/2001	The Hyundai Group founder Chung Ju-young passed away.
26/03/2001	North Korea provisionally accepted Hyundai Asan's proposal of the half reduction of the Mt. Kumgang monthly payment.
09/06/2001	Hyundai Asan and North Korea agreed on overland tour, designation of special tourism zone for Mt. Kumgang, and monthly payment of US\$100 per person.
20/06/2001	The state-run tourism promotion agency, KNTTO, announced it would take part in the Mt. Kumgang project.
29/06/2001	The Ministry of Unification of South Korea confirmed a US\$70 million loan from South-North Cooperation Fund as KNTTO demanded.

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## Conclusion

The Hyundai case has demonstrated how the decision-makers' will has contributed to the realisation of the Mt. Kumgang project. This is an example of the importance of strong policy-making will of both government and private sector in South Korea to utilise business-track diplomacy towards North Korea. These factors, such as the Hyundai Group founder Chung Ju-young's individual will to pursue North Korean businesses, North Korea's willingness to engage in South Korean business in the face of economic hardship, and the

Kim Dae-jung government's consistent engagement policy towards North Korea all helped the start of Mt. Kumgang tourism. Furthermore, the ongoing Mt. Kumgang project actually contributes to the positive development of some of the issues in inter-Korean relations, such as an enlargement of inter-Korean cooperation and contacts, a boost of South Korean public support, and an increase in confidence between the two Korean governments.

However, it is also apparent that South Korea's economic capability alone could not perform and maintain large-scale inter-Korean economic cooperation. That means although South Korea could change its policy towards active engagement with North Korea largely due to President Kim Dae-jung's strong beliefs on his 'sunshine policy' as discussed in previous chapters, Seoul's limited economic capability affected not the implementation of business track diplomacy but the successful utilisation of business-track diplomacy towards North Korea. Also, for Seoul this disadvantage will be an obstacle for its future engagement with North Korea.

This difficulty in the South has been demonstrated in the crisis of Mt. Kumgang tourism two years after its start. Because North Korean business requires up front investment and slow returns, South Korean companies need outside help either through foreign investment or the South Korean government's financial support. However, several limitations on North Korean business hindered foreign investment, including the US and Japanese governments' lack of policy-making will for economic engagement with North Korea, as discussed in chapter 4. Also, the South Korean government was no longer in a position to intervene in private business and to control economic policy, in order to put economic capacity into engagement with North Korea. Moreover, North Korea's lack of experience with the market economy and its sensitivity over regime stability also played a role in limiting economic engagement with North Korea. Therefore, this case study showed both optimism and the obstacles to success of Seoul's future business track diplomacy with North Korea as a viable long-term security policy.

## **Conclusion**

The introduction to this thesis laid out three inter-linked questions about the viability of comprehensive engagement policy by South Korea regarding post-Cold War North Korean security problems, the requirements and obstacles for the implementation of consistent engagement by South Korea, and the utility of economic engagement as a Post-Cold War global security policy. This concluding section recapitulates the central arguments of the research in order to draw out the answers to these three questions and thus extract the main theoretical and practical implications of the argument developed here.

### **The viability of South Korea's economic engagement with the North**

First, the emphasis is placed upon the viability of South Korea's economic engagement with North Korea in order to achieve security objectives. This thesis has analysed the case of South Korea's security policy regarding the post-Cold War North Korean security problems by using the model of business-track diplomacy, in order to answer the above question.

First, this study demonstrated that Seoul's comprehensive engagement approach is applicable to the changing nature of the North Korean security problems after the end of the Cold War (see chapter 2). The pattern of inter-Korean security relations since the division of Korea in 1945 has been inter-Korean conflict and confrontation along with great power geostrategic conflict and the Cold War political structure. Ensuring stability on the Korean Peninsula relied heavily on military and strategic alliances based on balance of power politics. In many ways, this balance of power and containment approach appears unchanged in the post-Cold War era, as South and North Korea continue their efforts to surpass each other, while regional powers act to obtain influence in the Korean Peninsula and to ensure their own perceived national interests.



However, at the same time, it became apparent that the post-Cold War North Korean security problems are based on the possibility that North Korea might implode or explode with possible inter-Korean military conflict in the future. These dangers were generated by factors such as external diplomatic setbacks and internal economic difficulties, rather than by its military capability and aggression towards South Korea, as in the Cold War era. Evidently, North Korea is willing to engage with Western countries, including former enemies, such as the US and Japan, in order to secure its regime, and has even begun to engage with South Korea in economic cooperation, a move that had been unthinkable during the Cold War era. Moreover, for South Korea, rapid German unification in 1990 provided the lesson that gradual unification was desirable because the sudden unification of Korea would involve enormous social and economic costs. Hence, South Korean governments proposed a gradual unification plan, with emphasis on peaceful inter-Korean exchanges and cooperation, as the official North Korea policy in the 1990s.

Second, the policy change identified by the Kim Dae-jung government, towards the execution of comprehensive engagement with North Korea, demonstrates that it is possible to use this type of policy in the service of long-term security purposes (see chapter 3). Although there is still opposition from international and domestic actors, the inescapable reality is that the US, South Korea, and Japanese policy-makers at least recognise the difficulty of using military power to counteract North Korea's military adventurism, and acknowledge North Korea's desire to engage with them.

In this regard, the Kim Dae-jung government's engagement measures, such as persuading the US and Japanese governments to pursue engagement with the North, Seoul's calm reaction toward North Korea's military provocations, and various inter-Korean activities, not only helped to decrease tensions on the Korean Peninsula, and increased mutual confidence between the two Koreas, but also demonstrated the possibility of Seoul's utilisation of this type of security policy towards North Korea.

Consequently, the Kim Dae-jung government placed comprehensive engagement as one viable strategic tool, alongside military capability available for post-Cold War North

Korea policy. Thus, a long-term engagement with North Korea does offer the prospect of avoiding the costs of a sudden collapse of North Korea, the potential for peaceful coexistence and confidence building between the two Koreas, and possibly, the peaceful unification of Korea.

North Korea may well persist with occasional threats of military aggression and brinkmanship for the sake of regime survival, or display greater resilience in the form of isolation, and thereby continue to upset the regional security picture and to harm overall inter-Korean relations. However, the most perceptible trait in its security behaviour in the 1990s and especially since the Agreed Framework in 1994, has been to moderate its security threats and to seek tentative engagement with the outside world, and even with South Korea, through economic cooperation. Thus, the use of economic, social and cultural engagement with North Korea should be a key means in avoiding future crises, and in achieving mechanisms to decrease tensions in the Korean Peninsula. Most importantly, as South Korea's ultimate security objective regarding North Korea is peaceful reunification, these comprehensive engagement measures are worth pursuing regardless of North Korea's military-first policy.

### **Policy-making will: South Korea's 'sunshine policy' towards North Korea**

As discussed in chapter 1, this thesis took seriously the importance of the policy-making will of both government and private actors for the utilisation of business-track diplomacy. The research then, has examined whether South Korean governments put enough policy-making energy into implementing business-track diplomacy towards North Korea in the 1990s. The analysis in chapter 3 looked at the different North Korea policy approaches of the Roh Tae-woo, the Kim Young-sam, and the current Kim Dae-jung government.

Even though all the South Korean governments after the end of Cold War recognised the need for engagement with the North, the previous South Korean governments were more sensitive to North Korea's continuing military provocations, such as nuclear development and military excursions into South Korea. Under the principle of *jeongkyungyeonkae* the first two governments limited not only South Korea's inter-Korean activities, including those in the

economic, social, and cultural fields, but also hampered international efforts to engage with the North. In particular, the Kim Young-sam government often used the 'North Korean card' for domestic political considerations, which resulted in an inconsistent engagement with North Korea.

In contrast to the limitations of the previous South Korean governments' engagement policy towards North Korea, the current Kim Dae-jung government has displayed strong policy-making will to utilise a security policy based on comprehensive and consistent engagement. This boosted the South's non-governmental organisational activities with North Korea by liberalising the regulations over inter-Korean exchanges, and reacting calmly to North Korea's continuing military provocations toward South Korea. Moreover, the current South Korean government encouraged international engagement with North Korea so that the North could come out of isolation and voluntarily open-up for political and economic reform. For instance, the Kim Dae-jung government has encouraged the US and Japanese governments to take initiatives towards normalising their relationships with North Korea, and also to be more active in their economic engagement with North Korea.

Along with Kim Dae-jung government's strong policy-making will of engagement with North Korea, this research revealed that private sectors' will of economic engagement with a target state is also important for the implementation of economic-based security policy. As seen in the case of the Mt. Kumgang project, the Hyundai Group's will of initiating cooperative business with North Korea was essential to the realisation of Mt. Kumgang tourism. Especially, the Hyundai Group founder Chung Ju-young's individual will of pursuing North Korean businesses was a significant part in the success of the project. Thereby, this study suggests that cooperative partnership between the public and private sectors is useful and needed for the utility of business-track diplomacy.

The importance of policy makers' policy-making will to use economic engagement could be an important factor to consider in the evaluation of the prospects for the change of the current immobilism of the US and Japanese governments' passive stance toward engagement with the North. As shown in chapter 4, policy-makers in the US and Japan, in

spite of their potential political and economic power, did not show the necessary political will to engage with the North, despite their recognition of the need for a soft-landing approach regarding the post-Cold War North Korean security problems.

South Korea's engagement with North Korea can have demonstrative effect and encourage the political leaders of regional powers to show greater willingness for 'soft-landing' approaches toward North Korea. However, the North Korean issue, and especially economic engagement with the North, may not be a policy priority for the regional powers and their political leaders, because this would require them to overcome the constraints that arise within their domestic political games. Nevertheless, at a normative level, this study suggests that South Korean political leaders should have a strong political will to pursue active engagement with North Korea in order to encourage the international community to engage with North Korea, and to avoid strengthening the hard-line position towards North Korea.

### **The role of beliefs on foreign policy-making: the impact of the beliefs held by Kim Dae-jung on North Korea policy-making**

As set out in the Introduction and in chapter 1, this study goes even further by asking what are the important factors for explaining Kim Dae-jung government's great commitment to active and consistent engagement with North Korea. Thereby, this thesis reviewed several approaches to foreign policy analysis (FPA) and employed three approaches (international system, domestic, and beliefs approach) to identify the crucial factors for the policy change under the Kim Dae-jung government.

As shown in chapter 4, both the international and the domestic political environments were not favourable for the Kim Dae-jung government to conduct active engagement with North Korea. It seems that at present US politicians, the bureaucratic, and the business communities lack the interest to use a security policy based on comprehensive engagement. The US priorities in North Korea mainly focus on North Korea's military threats, and it lacks a commercial appeal. Consequently, the pace of the US's engagement with the North is slow

and limited compared to its potential economic power to help North Korea's economic system changes.

Like the US, Japan, another powerful economic player, could not translate its economic capability into a national engagement policy towards North Korea.<sup>71</sup> Not having strong political and business interests, and concerned over the US-Japan military alliance, Japan has taken a passive attitude towards engagement with North Korea. Rather, US-Japan policy-makers put their energies into the rehabilitation of their military alliance following the Cold War and the North Korean nuclear crisis. In particular, North Korean military aggression seems to be used to a certain extent as an excuse for a strengthened US-Japan military alliance, whose aim may be to preempt more dangerous potential security threats from China in the Far East.

Moreover, South Korean domestic opposition to active engagement with the North still exists. Although South Korea's democratisation contributes to the rise of more progressive ideas towards North Korea among domestic actors and the public in general, as seen in the election of Kim Dae-jung as president of South Korea, anti-North Koreanism still prevails in conservative circles. Opposition to active engagement with North Korea by conservatives, such as the majority opposition party and prominent media groups, along with North Korea's continuing military provocations and infiltrations towards South Korea can still effectively influence public opinion, and thus limit Kim Dae-jung government's consistent engagement with the North.

However, as examined in chapter 5, President Kim Dae-jung's long-prepared principles regarding Korean reunification and strategies for North Korea policy had the most crucial impact on South Korea's execution of comprehensive engagement with North Korea. Because he has held principles about Korean reunification based on peaceful coexistence, exchanges and a gradual approach, for 30 years, he is willing to promote engagement as the optimal North Korea policy. Moreover, the changing nature of the post-Cold War North

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<sup>71</sup> Drifte (1998: 5) describes Japan's immobilism, its inability to use economic power for other political goals, as the 'paradox of unrealised power'.

Korean security problems, and thus the new opportunities for engagement with North Korea, encourage him to do so actively.

Armed with strong causal beliefs and perceptions on the North Korean issues, President Kim Dae-jung used his political power to dominate South Korea's policy-making system in pursuit of his 'sunshine policy'. Thus, President Kim Dae-jung's beliefs on sunshine policy greatly influenced South Korea's policy-making process and actual policy outcomes regarding the North Korea agenda. As a result, the Kim Dae-jung government is eager and able to enhance economic cooperation with the North, as demonstrated throughout this thesis, including the Mt. Kumgang tourism case. It can be argued that despite constraints from international and domestic forces, the Kim Dae-jung government could successfully operate the sunshine policy to enhance economic interdependence between the two Koreas. Even if South Korea is a relatively smaller state, compared to the US and Japan, its decision-makers' strong policy-making will could influence their state's decision-making process and international relations to some extent.

Of course, some may argue that the most important factor for the prospect of inter-Korean relation is still the direction of the US policy towards the Korean Peninsula. For instance, it is claimed that the current cool relationship between the US, South and North Korea was caused by the policies adopted by the hard-line George W. Bush administration in US, and that President Kim Dae-jung's sunshine policy became powerless from early 2001. Moreover, a series of incidents, such as the September 11 terror attacks on the US, and Bush's remarks accusing North Korea of being part of "an axis of evil" in January 2002 solidified President Bush's anti-terrorism, anti-WMD policy, and also his policy of containment towards North Korea. It further strained the relationships between the US, South and North Korea, and thus damaged President Kim Dae-jung's sunshine policy. In fact, it is true that the US is powerful enough to influence North Korea's behaviours, and thus overall inter-Korean relations and the effectiveness of Seoul's engagement approach with North Korea. In other words, Pyongyang sees the inter-Korean relationship as dependent on its relations with the US.

However, as pointed out in chapter 1, this study is not concerned with the final effectiveness of a policy choice. Rather, it seeks to identify the impact of beliefs held by decision-makers on the policy choice. In other words, despite external and internal obstacles to the sunshine policy, President Kim Dae-jung still believes that his “sunshine” policy of reconciliation and cooperation with North Korea is the sole alternative for maintaining peace on the Korean Peninsula and for preparing for its eventual reunification.

For instance, at the recent summit between President George W. Bush and Kim Dae-jung in Seoul on 20<sup>th</sup> of February 2002, Kim Dae-jung invited President Bush to the Dorasan Station, a South Korean side rail station for the relinking of the South-North railway, and argued that active engagement with North Korea would diminish the tensions between South and North Korea. Also, he asked President Bush to reopen dialogues with North Korea as soon as possible (*Korea Times*, 21 February 2002). Hence, he does not give up his engagement approaches towards North Korea, even though Seoul has recently faced great difficulties in pursuing its engagement with North Korea.

#### **Future implications: Emerging obstacles and opportunities for South Korea’s engagement policy towards North Korea**

This study also points out that the constraints from international and domestic environments are limiting the effectiveness of business-track diplomacy towards North Korea. The first problem is the lack of economic capability in South Korea, which is the other criterion for the effectiveness of business-track diplomacy along with the policy-making will, to enhance North Korea’s economic reforms and ultimately to ensure its economic interdependence with South Korea.

As discovered in the Mt. Kumgang case, the economic capability of South Korea’s private sector, even the chaebols, has decreased. Largely due to the financial crisis, the South Korean business community became financially conservative and profit-oriented, by limiting risks of new investment and businesses. Thus, unprofitable large-scale North Korean businesses would not be welcomed by the South Korean business community in the future.

Moreover, governmental involvement in North Korean businesses would not be easy either. Engaging in unprofitable inter-Korean economic exchanges could be a political burden for the South Korean government. Finally, North Korea's lack of general knowledge of, and will towards, a market economy also contributes to limit the involvement of the South Korean business community.

The second problem centres on how to forge a national consensus in South Korea. A national consensus on active engagement with North Korea has not been established, mainly because of ideological and political disputes. The rationale of engagement with North Korea is still a domestic political matter between the ruling and the opposition party, and an ideological one between the divided South Korean public (South-South Conflict). For instance, the opposition GNP, with the support of ULD, President Kim Dae-jung's former coalition partner, passed a no-confidence motion against Unification Minister Lim Dong-won, Kim Dae-jung's top aide in charge of North Korea policy on 4<sup>th</sup> of September 2001, and criticised Kim Dae-jung government's sunshine policy as a failure.<sup>72</sup>

Along with this, conservative media groups portray critically the South Korean government's economic and political concessions toward North Korea. Such a fractured foundation for national consensus has undermined Seoul's consistent engagement policy toward North Korea. National consensus is vital to the engineering of the engagement policy since it is by and large predicated on a trade-off between economic and political concessions in the short term and peace and security gains in the long-run.

The third problem is the US's passive role in the 'soft-landing' policy towards North Korea. The US is undoubtedly the most important player in terms of economic and military capability in the Korean Peninsula. In particular, because the US is the main target for North Korea's post-Cold War diplomacy to secure its survival, the US's policy towards North Korea is an important factor in the relationships between countries in the Korean Peninsula.

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<sup>72</sup> Lim Dong-won stepped down as Minister of Unification after attacks by opposition party members holding him responsible for pro-communist acts allegedly committed by some members of the South Korean delegation to the North during the joint Liberation Day festivities on 15<sup>th</sup> of August 2001. However, President Kim Dae-jung reappointed him as a minister-level special advisor for inter-Korean



However, internal policy-making problems in the US are causing the limitation of the 'soft-landing' policy toward North Korea.

It became clear that the advent of Bush administration is posing more barriers to confidence-building on the Korean Peninsula. Its critical view on North Korea has already undercut South Korea's sunshine policy, straining Seoul-Washington-Pyongyang relationships. Cooled relations between South Korea and the U.S., as well as North Korea and the U.S., further deteriorated on 29 January 2002 when President Bush included North Korea in parallel with Iran and Iraq in "an axis of evil", arming to threaten the peace of the world. Moreover, recent press reports of leaked Pentagon documents on the 9<sup>th</sup> of March indicated that the US had drawn up the contingency plan for nuclear strikes against North Korea along with Russia, China, Iran, Iraq, Libya, Syria (*International Herald Tribune*, 11 March 2002).

In response to this, North Korea declared on 14 March 2002 its intention to resume its nuclear weapons programme. Pyongyang argued that the US gave specific assurances in the Geneva AF in 1994 that it would not use nuclear weapons against North Korea. Thereby, Pyongyang would review all agreements with the US including AF in 1994 and its voluntary suspension in 1999 of long-range missile tests (*Financial Times*, 15 March 2002).

Accordingly, the South Korean government expressed its concern that Bush's remarks and his military approach could destabilise the Korean Peninsula. Unification Minister, Chung Se-hyun, even argued that "the North Korean nuclear weapons pointed out by George W. Bush are not for the purpose of attacking the South, but to serve as a bargaining chip when negotiating with powerful countries" (quoted in *Dongailbo* 4 February 2002). Some other high-ranking officials suggested that the U.S. should not drive North Korea into a corner.

However, this is not to say that South Korea's engagement policy will necessarily be constrained in the future and that the concept of business-track diplomacy is not viable. This study revealed that Kim Dae-jung government's strong political will greatly helped the prospect of inter-Korean cooperation and gave the international community room for

engaging with North Korea in the post-Cold War era. Also, the active inter-Korean exchanges and cooperation, and especially the 2000 summit between the two Koreas, definitely contributed to the popularity and validity of the sunshine policy.

Recent public opinion surveys in South Korea revealed that many people still support Kim Dae-jung's sunshine policy despite the cooled relationship between US, South Korea, and North Korea. A survey, conducted by the South Korean weekly magazine *Sisa Journal*, showed that about 60% of those interviewed did not agree with President George W. Bush's stance regarding North Korean issues (*Sisa Journal*, 7 March 2002). Also, in a survey of 300 South Korean opinion leaders, including professors, business people and professionals, 153 respondents considered President Kim's sunshine policy towards North Korea as a noteworthy achievement of the current Kim Dae-jung government.<sup>73</sup>

Therefore, it is possible that whoever will be the next president of South Korea in 2003 and thereafter, he or she has to carry out some kind of engagement policy towards North Korea. However, in order for South Korea to achieve its security objectives, consistent and effective engagement with North Korea is essential, and its effectiveness will lie in future domestic and international consensus for it. As pointed out in the belief approach section, the comprehensive engagement approach towards North Korea should be embedded as a norm.

However, because these issues could not be easily solved and required patience, South Korean policy-makers should make efforts to establish both international and domestic support for the need for comprehensive engagement with North Korea, in order to bring peace on the Korean Peninsula.

### **The implications on security policy and foreign policy-making (FPA)**

The above findings from the Korean case provide valuable lesson to IR theory, security studies and foreign policy analysis (FPA) field. First, the emphasis is placed upon the utility of a state's economic engagement with a target state in order to achieve security objectives.

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<sup>73</sup> This survey was conducted by the Citizens' Coalition for Economic Justice (CCEJ) of South Korea, Quoted from *Korea Times* (4 March 2002)

The examination of the global security agenda has revealed that in the post-Cold War era there are increasing doubts about the effectiveness of military power as the means for ensuring peace and preventing conflicts. Faced with the rise of a range of low-intensity conflicts, terrorism, ethnic and economic generated insecurity problems, policy-makers have considered economic-based and comprehensive approaches to security. Furthermore, the review of the South Korean policy-making debate regarding North Korean security problems in the post-Cold War era demonstrates that there exists a strong desire for alternative and comprehensive conceptions of security, and a fundamental acceptance of the utility of economic engagement for security purposes.

This study constructed and employed the concept of “business-track diplomacy” in order to test the theoretical and empirical possibilities of a state’s utilisation of economic engagement with a target state to deal with the post-Cold War security problems. Regarding the question of IR theory and security studies, it is arguable that the concept of business-track diplomacy and comprehensive engagement to security policy, while showing difficulties in effective implementation of this type of policy, and far from providing solutions to deal with every security issues, does open new ways for the understanding of security issues and provide new security approaches beyond the balance of power strategies and military based containment approaches.

The model explores, in the Korean case, both the need and the opportunity for involving states, especially South Korea, in active engagement, even with North Korea, who was usually viewed as a very hard target for engagement and as a country whose security problems have been regarded as military-oriented. Thereby, the business-track diplomacy model presents a perspective that may help policy-makers and scholars to perceive security problems with flexibility and move beyond conventional military perspectives to security.

Thus, by employing the concept of business-track diplomacy, this study has demonstrated that an alternative and comprehensive approach to security issues based on economic engagement that is applicable to inter-Korean relations and beyond can be intellectually robust and practically viable. The major benefits of a business-track diplomacy

model are that, first of all, it has the capacity to analyse the empirical evidence about a state's actual use of this type of policy towards a target state for security purposes, and secondly, it is able to generate further policy-making lessons including requirements and obstacles that policy-makers need to anticipate if they are to engage in successful business-track diplomacy in the future.

In particular, along with the importance of the government's policy-making energy towards engagement as long-term security policy, this model presented the significant role of the private sectors to peace and security. Even though private sector activities might attract little attention from the mass media, they can help not only to relieve the economic pressure of poverty and the needs of the people and nations that can lead to conflicts but also to build mutual confidence on both sides by providing communications channels and thus decreasing misunderstanding. Thereby, as demonstrated in the Mt. Kumgang case, they do play a role behind the scene in helping to shape the course of future engagement. It can be argued that private sectors may not have "the capacity to propel the ship but they can help navigate and sound warnings to change course to safer water" (Chung Ok-nim 1999b: 125).

In turn, the lessons of the post-Cold War North Korean security case could be applicable to other post-Cold War security issues. For example, the Asian financial crisis of 1997-8 demonstrated the impact of the state economic crises on their domestic political and social stability and thus on regional security. Moreover, economic difficulties in the former Soviet Republics from 1998 brought domestic instability and greater insecurity for the region. Thus, policy-makers understand the need for economic engagement in order to prevent global and regional insecurity. The case of US's war on terrorism showed the need of US's active political and economic engagement toward countries surrounding Afghanistan in order to carry out its war operation. Also, recent discussions in the US over the lifting of economic sanctions against Cuba and former Soviet Republics, and also the acceptance of China's joining of WTO could be seen as instruments for decreasing instability and confrontations, and bringing peace around world.

Meanwhile, to take the question of the foreign policy analysis (FPA) field, the contribution of this study is to have shown the importance of beliefs in foreign policy-making. By showing the different policy outcomes under the different South Korean governments towards North Korea in spite of fairly similar international and domestic environments, this study went beyond the rationalist models' assumptions that "actor's preference and causal beliefs are given, and attention focuses on the variation in the constraints faced by actors" (Goldstein and Keohane 1993: 4). In other words, foreign policy outcomes could be different based on what decision-makers believe. Such beliefs then function as road-maps, information screens, and can play a part in the process of policy institutionalisation. Especially, the situations, such as North Korea's future, which involve uncertainty and are ambiguous, increase the probability of the role of policy-makers' beliefs on policy-making.

Furthermore, the application of the beliefs approach is all the more important because it presents an alternative perspective on South Korea's foreign policy analysis (FPA) by showing the impact of beliefs held by the political leader on South Korean foreign policy-making process and by building a theoretical picture that goes beyond the international structural point of view. The beliefs approach helped to demonstrate that even in the case of South Korea's security policy-making concerning North Korean security problems, usually viewed as exclusively military-based and US-centred, a state such as the relatively small South Korea could have room to enhance economic engagement with North Korea and to promote international support for the policy.

Finally, the beliefs approach revealed that it was the belief in a certain interpretation of the security problems and their solutions which determined the patterns of security behaviour. Thus, state security policies are not an invariable reaction to the total reality of the structure, but they are products of human beliefs regarding causes and solutions. In turn, this finding indicates that policy-makers' beliefs on different approaches to security could help the emergence of alternative approaches to the same security environment.

It is more interesting in the case of Korea, where military alliance politics and containment approaches have often been seen as invariable realities even in the post-Cold

War era, that active and consistent engagement with the North became one of the beliefs that addressed the post-Cold War North Korean security problem. Then, the embedding of the belief about the need of comprehensive engagement to international and domestic actors could be considered an important factor for successful engagement approaches.

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